Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim consolidated financial statements for Q3 2017

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Introduction

Compliance statement

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

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

Quarterly standalone financial information of the parent company

Pursuant to Article 83 Section 1 of the Regulation on Current and Periodic Information, quarterly standalone financial information of the PZU Group's parent company, i.e. Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "parent company") 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 into trading on one of the regulated markets of the European Economic Area's states 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 Polish Accounting Standards ("PAS"), as defined in the Accounting Act, and in the executive regulations issued on its basis, including:

- 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 and/or IFRS are applied accordingly.

Period covered by these condensed interim consolidated financial statements

These condensed interim consolidated financial statements have been prepared for the period of 9 months from 1 January to 30 September 2017.

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

Functional and presentation currency

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

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

FX rates

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

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

Currency	1 January – 30 September 2017	1 January – 31 December 2016	1 January – 30 September 2016	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Euro	4.2566	4.3757	4.3688	4.3091	4.2265	4.4240	4.3120
Ukrainian hryvnia	0.1436	0.1542	0.1531	0.1373	0.1424	0.1542	0.1488

Going concern assumption

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

Discontinued operations

In the period of 9 months ended 30 September 2017, PZU Group entities did not discontinue any material type of activity.

Seasonal or cyclical business

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

Glossary of terms

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Bank BPH – Bank BPH SA.

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

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

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

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

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

Pioneer Pekao TFI – Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA.

Pioneer PTE – Pekao Pioneer Powszechne Towarzystwo Emerytalne SA.

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

PPIM – Pioneer Pekao Investment Management SA.

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji Spółka Akcyjna.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

SU Krystynka – Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

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

Other definitions

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

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

WSE – Warsaw Stock Exchange.

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

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

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

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

NBP – National Bank of Poland;

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

Banking Law – Banking Law Act of 29 August 1997 (i.e. Journal of Laws of 2017, Item 1876).

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

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

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

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

KNF Office – Office of the Polish Financial Supervision Authority.

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

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

Financial highlights

1. PZU Group's selected consolidated financial data

Data from the consolidated statement of profit or loss	m PLN 1 January – 30 September 2017	m PLN 1 January – 30 September 2016	m EUR 1 January – 30 September 2017	m EUR 1 January – 30 September 2016
Gross written premiums	16,933	14,706	3,978	3,366
Net earned premium	15,849	13,784	3,723	3,155
Fees and commission income	1,512	582	355	133
Net investment result	5,833	2,635	1,370	603
Net insurance claims and benefits	(11,252)	(9,771)	(2,643)	(2,237)
Profit before tax	3,905	1,958	917	448
Profit attributable to equity holders of the Parent Company	2,146	1,309	504	300
Profit attributable to holders of non-controlling interests	857	199	201	46
Basic and diluted weighted average number of common shares	863,518,494	863,510,791	863,518,494	863,510,791
Basic and diluted earnings per common share (in PLN/EUR)	2.49	1.52	0.58	0.35

Data from the consolidated statement of financial position	m PLN 30 September 2017	m PLN 31 December 2016	m PLN 30 September 2016	m EUR 30 September 2017	m EUR 31 December 2016	m EUR 30 September 2016
Assets	300,245	125,296	112,914	69,677	28,322	26,186
Share capital	86	86	86	20	19	20
Equity attributable to the equity holders of the Parent Company	13,905	12,998	12,377	3,227	2,938	2,870
Non-controlling interests	22,025	4,086	3,891	5,111	924	902
Total equity	35,930	17,084	16,268	8,338	3,862	3,773
Basic and diluted number of common shares	863,498,295	863,504,300	863,516,765	863,498,295	863,504,300	863,516,765
Book value per common share (in PLN/EUR)	16.10	15.05	14.33	3.74	3.40	3.32

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2017	m PLN 1 January – 30 September 2016	m EUR 1 January – 30 September 2017	m EUR 1 January – 30 September 2016
Net cash flow on operating activity	547	702	128	161
Net cash flow on investing activity	4,197	(237)	986	(54)
Net cash flow on financing activity	1 667	(413)	392	(95)
Total net cash flow	6,411	52	1,506	12

2. PZU's selected standalone financial data (according to PAS)

Balance sheet data	m PLN 30 September 2017	m PLN 31 December 2016	m PLN 30 September 2016	m EUR 30 September 2017	m EUR 31 December 2016	m EUR 30 September 2016
Assets	42,871	37,408	38,108	9,949	8,456	8,838
Share capital	86	86	86	20	19	20
Total equity	13,062	12,208	11,611	3,031	2,762	2,693
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Book value per common share (in PLN/EUR)	15.13	14.15	13.45	3.51	3.20	3.12

Data from the technical non-life insurance account and the non-technical profit and loss account	m PLN 1 January – 30 September 2017	m PLN 1 January – 30 September 2016	m EUR 1 January – 30 September 2017	m EUR 1 January – 30 September 2016
Gross written premiums	9,241	7,622	2,171	1,745
Technical result of non-life insurance	849	333	199	76
Net investment result [1)]	1,909	1,135	448	260
Net profit	2,149	1,000	505	229
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)	2.49	1.16	0.58	0.27

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

3. PZU Życie's selected standalone financial data (according to PAS)

Balance sheet data	m PLN 30 September 2017	m PLN 31 December 2016	m PLN 30 September 2016	m EUR 30 September 2017	m EUR 31 December 2016	m EUR 30 September 2016
Assets	29,776	27,894	28,842	6,910	6,305	6,689
Total equity	4,463	4,810	4,348	1,036	1,087	1,008

Data from the technical life insurance account and the non-technical profit and loss account	m PLN 1 January – 30 September 2017	m PLN 1 January – 30 September 2016	m EUR 1 January – 30 September 2017	m EUR 1 January – 30 September 2016
Gross written premiums	6,370	5,997	1,496	1,373
Technical life insurance result	1,245	1,201	292	275
Net investment result	1,026	628	241	144
Net profit	964	928	226	212

4. Summary of consolidated financial results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2017 was PLN 3,003 million and was 99.1% higher than the net result in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders was PLN 2,146 million compared to PLN 1,309 million in 2016 (up 63.9%).

The net result of one-off events[1] increased 83.3% compared to last year.

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2017 was 21.3%, up 7.5 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity in the 9 months ended 30 September 2017, as compared to the corresponding period of the previous year:

- higher gross written premium in motor insurance in the mass and corporate client segments following an increase in average premium and the volume of business and in individual insurance, in particular unit-linked products in the bancassurance channel;
- the increase in profitability in the mass insurance segment associated mainly with a decrease in the loss ratio in agricultural insurance – in the corresponding period of the previous year, occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) and, to a smaller extent, improvement of profitability in motor insurance;
- lower profitability in the corporate insurance segment, mainly in the non-motor insurance product group following the reporting of a few claims with high unit values;
- decrease in profitability in group and individually continued insurance as a result of higher loss ratio of protection products driven by the increase of the frequency of events associated with deaths in the first quarter of this year, confirmed by GUS mortality data on the whole population. In Q2 and Q3, the loss ratios returned to the levels observed in the corresponding period of last year;
- better performance in the banking segment: Alior Bank in connection with the high sales level of credit products supported by good business climate;
- higher investment income on equity portfolios caused by better market conditions on the Warsaw Stock Exchange, including a higher valuation of the stake held in the Azoty Group.

The key events in 2017 included adding bank Pekao to PZU Group's structures. This transaction transformed the PZU Group from being an insurance group into a financial group. The commencement of consolidating Pekao in June 2017 materially affected the comparability of the results and the total balance sheet value. The total balance sheet value jumped on this account by roughly PLN 187 billion compared to the previous year, while non-controlling interests totaled PLN 22.0 billion (as at 30 September 2017). Since the consolidation of Pekao commenced in June 2017, it contributed PLN 918 million to the operating result of the PZU Group and the bank segment.

[1] Non-recurring events include the conversion effect caused by converting long-term policies into yearly renewable term agreements in type P group insurance, claims caused by weather conditions (storms), which were higher than the average of the last 3 years and claims in agricultural insurance that were, in the comparable period, higher than the average of the last 3 years.

Interim consolidated financial statements

1. Interim consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated) [1)]	1 January – 30 September 2016 (restated) [1)]
Gross written premiums	9.1	5,327	16,933	4,844	14,706
Reinsurers' share in gross written premium		5	(302)	(64)	(206)
Net written premium		**5,332**	**16,631**	**4,780**	**14,500**
Movement in the net provision for unearned premiums		170	(782)	18	(716)
Net earned premium		**5,502**	**15,849**	**4,798**	**13,784**
Fees and commission income	0	810	1,512	187	582
Net investment income	9.3	2,883	6,150	1,145	3,024
Net result on the realization of investments and impairment charges	9.4	(362)	(663)	26	(444)
Net movement in the fair value of assets and liabilities measured at fair value	9.5	280	346	59	55
Other operating income	9.6	321	851	234	646
Claims and movement in technical provisions		(4,187)	(11,566)	(3,607)	(9,838)
Reinsurers' share in claims and movement in technical provisions		149	314	1	67
Net insurance claims and benefits	**9.7**	**(4,038)**	**(11,252)**	**(3,606)**	**(9,771)**
Fees and commission expenses	9.8	(181)	(370)	(64)	(186)
Interest expenses	9.9	(458)	(884)	(160)	(506)
Acquisition expenses	9.10	(730)	(2,142)	(663)	(1,915)
Administrative expenses	9.10	(1,604)	(3,644)	(644)	(1,927)
Other operating expenses	9.11	(726)	(1,857)	(402)	(1,382)
Operating profit		**1,697**	**3,896**	**910**	**1,960**
Share of the financial results of entities measured by the equity method		10	9	(1)	(2)
Profit before tax		**1,707**	**3,905**	**909**	**1,958**
Income tax	9.13	(437)	(902)	(191)	(450)
Net profit, including:		**1,270**	**3,003**	**718**	**1,508**
- profit attributable to the equity holders of the parent company		700	2,146	649	1,309
- profit attributable to holders of non-controlling interests		570	857	69	199
Basic and diluted weighted average number of common shares	9.12	863,522,006	863,518,494	863,495,307	863,510,791
Basic and diluted earnings per common share (in PLN)	9.12	0.81	2.49	0.75	1.52

[1)] Restatement of the 2016 data results from adjustments for presentation purposes. Additional information is presented in item 4.2.

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016** (restated) [1)]	**1 January – 30 September 2016** (restated) [1)]
Net profit	1,270	3,003	718	1,508
Other comprehensive income	110	118	(52)	(80)
Subject to subsequent transfer to the statement of profit or loss	110	117	(56)	(84)
Measurement of financial instruments available for sale	66	108	(7)	(77)
Foreign exchange translation differences	20	(33)	(31)	10
Net cash flow hedging	24	42	(18)	(17)
Not to be reclassified to the statement of profit or loss in the future	-	1	4	4
Reclassification of real property from property, plant and equipment to investment property	-	1	4	4
Total net comprehensive income	**1,380**	**3,121**	**666**	**1,428**
- comprehensive income attributed to the equity holders of the parent company	768	2,187	604	1,249
- comprehensive income attributed to holders of non-controlling interests	612	934	62	179

[1)] Restatement of the 2016 data results from adjustments for presentation purposes. Additional information is presented in item 4.2.

3. Interim consolidated statement of financial position

Assets	**Note**	**30 September 2017**	**30 June 2017** (restated) [1]	**31 December 2016** (restated) [1]	**30 September 2016** (restated) [2)]	**1 January 2016** (restated) [2]
Goodwill	9.14	3,288	3,278	1,583	1,540	1,532
Intangible assets		1,980	1,963	1,463	1,343	1,393
Other assets	9.15	781	879	866	2,234	801
Deferred acquisition costs		1,471	1,473	1,407	1,258	1,154
Reinsurers' share in technical provisions	9.21	1,035	1,126	990	931	1,097
Property, plant and equipment		2,778	2,819	1,467	1,184	1,300
Investment properties		1,716	1,703	1,738	1,906	1,172
Entities measured by the equity method		192	190	37	52	54
Financial assets		265,088	257,119	105,286	91,957	89,229
Held to maturity	9.16.1	22,477	23,371	17,346	17,093	17,370
Available for sale	9.16.2	34,383	31,691	11,652	8,281	7,745
Measured at fair value through profit or loss	9.16.3	20,791	18,267	21,882	22,762	20,648
Hedge derivatives		310	298	72	62	140
Loans	9.16.4	187,127	183,492	54,334	43,759	43,326
Deferred tax assets		1,540	1,593	633	482	369
Receivables	9.18	9,808	10,221	5,664	6,632	3,350
Cash and cash equivalents		9,328	11,646	2,973	2,481	2,440
Assets held for sale	9.20	1,240	1,239	1,189	914	1,506
Total assets		**300,245**	**295,249**	**125,296**	**112,914**	**105,397**

[1)] Restatement of data as at 30 June 2017 and 31 December 2016 resulted mainly from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this issue is presented in items 1.4.1.2 and 4.2.

[2)] Restatement of data as at 30 September 2016 and 1 January 2016 result mainly from presentation adjustments. Additional information is presented in item 4.2.

Interim consolidated statement of financial position (continued)

Equity and liabilities	Note	30 September 2017	30 June 2017 (restated) [1]	31 December 2016 (restated) [1]	30 September 2016 (restated) [2)]	1 January 2016 (restated) [2]
Equity						
Equity attributable to the equity holders of the Parent Company		13,905	13,153	12,998	12,377	12,924
Share capital		86	86	86	86	86
Other equity		11,963	11,908	10,869	10,874	10,142
Retained earnings		1,856	1,159	2,043	1,417	2,696
Retained earnings		(290)	(287)	108	108	2,696
Net profit		2,146	1,446	1,935	1,309	-
Non-controlling interests		22,025	21,468	4,086	3,891	2,194
Total equity		**35,930**	**34,621**	**17,084**	**16,268**	**15,118**
Liabilities						
Technical provisions	9.21	44,063	43,785	42,194	41,873	41,280
Provisions for employee benefits		514	532	128	107	117
Other provisions	9.22	508	574	367	103	108
Deferred tax liability		638	623	469	606	509
Financial liabilities	9.23	209,824	204,291	60,030	47,104	44,695
Other liabilities	9.24	8,745	10,791	4,991	6,853	3,570
Liabilities related directly to assets classified as held for sale	9.20	23	32	33	-	-
Total liabilities		**264,315**	**260,628**	**108,212**	**96,646**	**90,279**
Equity and liabilities, total		**300,245**	**295,249**	**125,296**	**112,914**	**105,397**

[1)] Restatement of data as at 30 June 2017 and 31 December 2016 resulted mainly from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this issue is presented in items 1.4.1.2 and 4.2.

[2)] Restatement of data as at 30 September 2016 and 1 January 2016 result mainly from presentation adjustments. Additional information is presented in item 4.2.

4. Interim statement of changes in consolidated equity

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company									Non-controlling interests	Total equity
		Other equity					Retained earnings		Total			
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Measurement of financial instruments available for sale	-	-	-	64	-	-	-	-	-	64	44	108
Cash flow hedging	-	-	-	9	-	-	-	-	-	9	33	42
Foreign exchange translation differences	-	-	-	-	-	-	(33)	-	-	(33)	-	(33)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total other net comprehensive income	**-**	**-**	**-**	**74**	**-**	**-**	**(33)**	**-**	**-**	**41**	**77**	**118**
Net profit (loss)	-	-	-	-	-	-	-	-	2,146	2,146	857	3,003
Total comprehensive income	**-**	**-**	**-**	**74**	**-**	**-**	**(33)**	**-**	**2,146**	**2,187**	**934**	**3,121**
Other changes, including:	**-**	**-**	**1,057**	**(4)**	**-**	**-**	**-**	**(2,333)**	**-**	**(1,280)**	**17,005**	**15,725**
Distribution of financial result	-	-	1,125	-	-	-	-	(2,333)	-	(1,208)	-	(1,208)
Acquisition of Pekao shares	-	-	-	-	-	-	-	-	-	-	17,176	17,176
Transactions with holders of non-controlling interests	-	-	(72)	-	-	-	-	-	-	(72)	(171)	(243)
Sale of revalued real estate	-	-	4	(4)	-	-	-	-	-	-	-	-
As at 30 September 2017	**86**	**(1)**	**11,815**	**176**	**5**	**3**	**(35)**	**(290)**	**2,146**	**13,905**	**22,025**	**35,930**

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity (restated)	**Share capital**	**Equity attributable to the equity holders of the Parent Company**								**Total**	**Non-controlling interests**	**Total equity**
		Other equity						**Retained earnings**				
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2016	**86**	**-**	**9,947**	**241**	**-**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of financial instruments available for sale	-	-	-	(104)	-	-	-	-	-	(104)	(40)	(144)
Cash flow hedging	-	-	-	(9)	-	-	-	-	-	(9)	(22)	(31)
Foreign exchange translation differences	-	-	-	-	-	-	40	-	-	40	-	40
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	7	-	-	-	7	-	7
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total other net comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**-**	**(63)**	**(62)**	**(125)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,935	1,935	439	2,374
Total comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**1,935**	**1,872**	**377**	**2,249**
Other changes, including:	**-**	**(1)**	**811**	**(25)**	**5**	**-**	**-**	**(2,588)**	**-**	**(1,798)**	**1,515**	**(283)**
Distribution of financial result	-	-	787	-	5	-	-	(2,588)	-	(1,796)	-	(1,796)
Issues of Alior Bank shares	-	-	-	-	-	-	-	-	-	-	1,528	1,528
Transactions on treasury shares		(1)	-	-	-	-	-	-	-	(1)	-	(1)
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	(13)	(14)
Sale of revalued real estate	-	-	25	(25)	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**108**	**1,935**	**12,998**	**4,086**	**17,084**

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company								Non-controlling interests	Total equity
		Other equity					Retained earnings		Total		
		Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2016	**86**	**9,947**	**241**	**-**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of financial instruments available for sale	-	-	(69)	-	-	-	-	-	(69)	(8)	(77)
Cash flow hedging	-	-	(5)	-	-	-	-	-	(5)	(12)	(17)
Foreign exchange translation differences	-	-	-	-	-	10	-	-	10	-	10
Reclassification of real property from property, plant and equipment to investment property	-	-	4	-	-	-	-	-	4	-	4
Total other net comprehensive income	**-**	**-**	**(70)**	**-**	**-**	**10**	**-**	**-**	**(60)**	**(20)**	**(80)**
Net profit (loss)	-	-	-	-	-	-	-	1,309	1,309	199	1,508
Total comprehensive income	**-**	**-**	**(70)**	**-**	**-**	**10**	**-**	**1,309**	**1,249**	**179**	**1,428**
Other changes, including:	**-**	**808**	**(21)**	**5**	**-**	**-**	**(2,588)**	**-**	**(1,796)**	**1,518**	**(278)**
Distribution of financial result	-	787	-	5	-	-	(2,588)	-	(1,796)	-	(1,796)
Issues of Alior Bank shares	-	-	-	-	-	-	-	-	-	1,518	1,518
Sale of revalued real estate	-	21	(21)	-	-	-	-	-	-	-	-
As at 30 September 2016	**86**	**10,755**	**150**	**5**	**(4)**	**(32)**	**108**	**1,309**	**12,377**	**3,891**	**16,268**

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 30 September 2017	1 January – 30 September 2016
Profit before tax	3,905	1,958
Adjustments	(3,358)	(1,256)
Movement in loan receivables from clients	(9,128)	(4,247)
Movement in liabilities under deposits	6,447	3,080
Movement in valuation of real properties measured at fair value	(346)	(96)
Interest income and expenses	(1,223)	(848)
Realized gains/losses on investment activity and impairment charges	663	444
Result on foreign exchange differences	(540)	(102)
Movement in deferred acquisition expenses	(64)	(103)
Amortization of intangible assets and depreciation of property, plant and equipment	493	305
Movement in reinsurers' share in technical provisions	(45)	166
Movement in technical provisions	1,869	593
Movement in receivables	(1,701)	(39)
Movement in liabilities	704	(71)
Cash flow on investment contracts	(84)	(130)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(344)	158
Income tax paid	(819)	(389)
Other adjustments	760	23
Net cash flow on operating activity	**547**	**702**
Cash flow on investing activity		
Proceeds	673,926	774,560
- sale of investment properties	66	60
- proceeds from investment properties	227	206
- sale of intangible assets and components of property, plant and equipment	33	11
- sale of ownership interests and shares	2,199	3,206
- realization of debt securities	144,443	125,321
- closing of buy-sell-back transactions	266,032	278,391
- closing of term deposits in credit institutions	173,539	276,958
- realization of other investments	81,107	89,154
- interest received	1,225	1,147
- dividends received	33	52
- cash acquired in business combinations and when changing the scope of consolidation	4,998	32
- other investment proceeds	24	22

Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 30 September 2017	1 January – 30 September 2016
Expenditures	(669,729)	(774,797)
- purchase of investment properties	(48)	(180)
- expenditures for the maintenance of investment properties	(132)	(115)
- purchase of intangible assets and components of property, plant and equipment	(467)	(217)
- purchase of ownership interests and shares	(1,145)	(4,490)
- purchase of ownership interests and shares in subsidiaries	(6,270)	(344)
- decrease in cash due to a change in the scope of consolidation	(54)	(7)
- purchase of debt securities	(143,090)	(128,314)
- opening of buy-sell-back transactions	(264,214)	(276,488)
- purchase of term deposits in credit institutions	(171,053)	(275,271)
- purchase of other investments	(83,248)	(89,365)
- other expenditures for investments	(8)	(6)
Net cash flow on investing activity	**4,197**	**(237)**
Cash flow on financing activity		
Proceeds	180,006	264,202
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)	-	1,502
- proceeds from loans and borrowings	1,605	39
- proceeds from the issue of own debt securities	3,575	264
- opening of sell-buy-back transactions	174,826	262,397
Expenditures	(178,339)	(264,615)
- dividends paid to non-controlling interests	(1 823)	-
- repayment of loans and borrowings	(1,586)	(33)
- closing of sell-buy-back transactions	(174,823)	(264,495)
- interest on loans and borrowings	(5)	(5)
- interest on outstanding debt securities	(102)	(82)
Net cash flow on financing activity	**1,667**	**(413)**
Total net cash flow	**6,411**	**52**
Cash and cash equivalents at the beginning of the period	2,973	2,440
Movement in cash due to foreign exchange differences	(56)	(11)
Cash and cash equivalents at the end of the period, including:	9,328	2,481
- restricted cash	46	53

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

According to the Polish Classification of Business Activity (PKD), the core business of PZU consists of other casualty insurance and property insurance (PKD 65.12) and according to the Statistical Classification of Economic Activities in Europe – non-life insurance (NACE 6603).

1.2 PZU Group companies

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2017	31 December 2016	
Consolidated companies						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.00%	n/a	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.00%	n/a	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.00%	n/a	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.00%	n/a	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.00%	n/a	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Pioneer Powszechne Towarzystwo Emerytalne SA	Warsaw	07.06.2017	13.00%[1)]	n/a	Management of pension funds. https://www.pekaopte.pl/
17	Centrum Kart SA	Warsaw	07.06.2017	20.00%	n/a	Auxiliary financial services. http://www.centrumkart.pl/
18	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Transfer agent. http://www.pekao-fs.com.pl/pl/
19	Centrum Bankowości Bezpośredniej sp. z o.o.	Kraków	07.06.2017	20.00%	n/a	Call-center services. http://www.cbb.pl/
20	Pekao Property SA	Warsaw	07.06.2017	20.00%	n/a	Development activity.
21	FPB – Media sp. z o.o.	Warsaw	07.06.2017	20.00%	n/a	Development activity.

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2017	31 December 2016	
Consolidated companies – Pekao Group – continued						
22	Pekao Fundusz Kapitałowy sp. z o.o. (in liquidation)	Warsaw	07.06.2017	20.00%	n/a	Business consulting
Consolidated companies – Alior Bank Group						
23	Alior Bank SA	Warsaw	18.12.2015	32.23%	29.45%	Banking services. https://www.aliorbank.pl/
24	Alior Services sp. z o.o.	Warsaw	18.12.2015	32.23%	29.45%	Other activity supporting financial services, excluding insurance and pension funds.
25	Centrum Obrotu Wierzytelnościami sp. z o.o.	Kraków	18.12.2015	32.23%	29.45%	Debt trading.
26	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	32.23%	29.45%	Lease services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
27	Meritum Services ICB SA	Gdańsk	18.12.2015	32.23%	29.45%	IT services.
28	Money Makers TFI SA	Warsaw	18.12.2015	19.39%[2)]	17.33%[2)]	Asset management services and management of Alior SFIO subfunds. http://www.moneymakers.pl
29	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	32.23%	29.45%	No business conducted.
30	Absource sp. z o.o.	Kraków	04.05.2016	32.23%	29.45%	Provision of IT services.
31	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	32.23%	n/a	Brokerage activity.
Consolidated companies – PZU Zdrowie Group						
32	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/grupa-pzu/pzu-zdrowie-sa
33	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
34	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
35	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/
36	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/
37	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
38	Rezo-Medica sp. z o.o.	Płock	23.04.2015	100.00%	100.00%	Medical services. http://rezo-medica.pl/
39	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
40	Medicus w Opolu sp. z o.o.	Opole	30.09.2015	100.00%	100.00%	Medical services. http://medicus.opole.pl/
41	Polmedic sp. z o.o. [3)]	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2017	31 December 2016	
Consolidated companies – PZU Zdrowie Group – continued						
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.	Gdańsk	31.05.2017	100.00%	n/a	Medical services. http://www.revimed.pl/
44	Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.	Trzebinia	30.06.2017	95.25%	n/a	Medical services. http://www.nzoz.trzebinia.com/
Consolidated companies – other companies						
45	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
46	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
47	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
48	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
49	PZU Finance AB (publ.)	Stockholm, Sweden	02.06.2014	100.00%	100.00%	Financial services.
50	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and bookkeeping services.
51	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties.
52	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
53	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
54	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
55	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	n/a	Investment activity.
56	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
57	PZU LAB SA (formerly Omicron 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.
58	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
59	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2017	31 December 2016	
Consolidated companies – other companies – continued						
60	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
61	L4C sp. z o.o. w likwidacji [4)]	Warsaw	15.09.2014	100.00%	100.00%	No business conducted.
62	Battersby Investments SA	Warsaw	15.09.2017	100.00%	n/a	No business conducted.
63	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	n/a	No business conducted.
Consolidated companies – Armatura Group						
64	Armatura Kraków SA [5)]	Kraków	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
65	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
66	Aquaform Badprodukte GmbH	Anhausen, Germany	15.01.2015	100.00%	100.00%	Wholesale trade.
67	Aquaform Ukraine TOW	Zhytomyr, Ukraine	15.01.2015	100.00%	100.00%	Wholesale trade.
68	Aquaform Romania SRL	Prejmer, Romania	15.01.2015	100.00%	100.00%	Wholesale trade.
69	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
70	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
71	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
72	PZU FIZ Sektora Nieruchomości [6)]	Warsaw	01.07.2008	n/a	n/a	as above
73	PZU FIZ Sektora Nieruchomości 2 [6)]	Warsaw	21.11.2011	n/a	n/a	as above
74	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
75	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
76	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
77	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
78	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	as above
79	PZU Telekomunikacja Media Technologia	Warsaw	07.09.2016	n/a	n/a	as above
80	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	as above
81	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	as above
82	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2017	31 December 2016	
Associates						
83	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration.
84	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [7)]	28.31% [7)]	Human health protection, research and development in the medical sciences and pharmaceutical practice.
85	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	07.06.2017	10.00% [8)]	n/a	Financial intermediation. https://www.xelion.pl/
86	Pioneer Pekao Investment Management SA	Warsaw	07.06.2017	9.80% [8)]	n/a	Asset management. http://www.pioneer.com.pl/
87	Pioneer Pekao TFI SA	Warsaw	07.06.2017	9.80% [8)]	n/a	Creation, representing and management of mutual funds. http://www.pioneer.com.pl/
88	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.00% [8)]	n/a	Consulting and business activity – no business conducted.

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

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

[3)] On 20 September 2017, Polmedic sp. z o.o. merged with Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o. The merger was effected by the transfer to Polmedic sp. z o.o of all the assets of Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o. without a simultaneous increase of the acquiring company's share capital and without an exchange of the acquired company's shares to the acquiring company shares and without amending the acquiring company's articles of association. The transaction had no impact on the condensed interim consolidated financial statements.

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

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

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

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

[8)] Pekao's associates, in which it holds, respectively, 50.00% (Xelion), 49.00% (PPIM and Pioneer Pekao TFI) and 40.00% (CPF Management). As a result, the PZU Management Board recognizes that the PZU Group has significant influence over those companies.

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

1.3 Non-controlling interests

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

Name of the company	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Pekao	80.00%	80.00%	n/a	n/a
Alior Bank	67.77%	68.64%	70.55%	70.78%
Gamma	39.54%	39.54%	39.54%	39.54%
Proelmed	43.00%	43.00%	43.00%	43.00%
NZOZ Trzebinia sp. z o.o.	4.75%	4.75%	n/a	n/a
SU Krystynka	0.91%	0.91%	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%	0.66%	0.66%
AAS Balta	0.01%	0.01%	0.01%	0.01%
Lietuvos Draudimas AB	0.00%	0.00%	0.00%	0.02%

Carrying amount non-controlling interests	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016
Pekao	17,774	17,326	n/a	n/a
Alior Bank	4,249	4,138 [1]	4,080 [1]	3,885
Other	2	4	6	6
Total	**22,025**	**21,468**	**4,086**	**3,891**

[1] Restatement of data as at 30 June 2017 and 31 December 2016 resulted from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this matter is presented in item 1.4.1.2.

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 [1) 2)]		Alior Bank			
	30 September 2017 [2)]	30 June 2017 [2)]	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016
Intangible assets	592	537	647 [3)]	677 [3)]	666 [3)]	562
Other assets	158	188	61	81	68	1,623
Property, plant and equipment	1,407	1,400	450	476	486	214
Investment properties	22	23	-	-	-	-
Entities measured by the equity method	168	157	-	-	-	-
Financial assets	159,616	157,697	60,142	56,146	57,078	41,262
Held to maturity	3,471	4,384	220	223	220	-
Available for sale	22,488	22,453	9,221	6,774	9,522	6,374
Measured at fair value through profit or loss	2,538	3,571	481	421	419	310
Hedge derivatives	234	259	75	46	72	62
Loans	130,885	127,030	50,145 [3)]	48,682 [3)]	46,845 [3)]	34,516
Deferred tax assets	925	921	598 [3)]	615 [3)]	603 [3)]	454
Receivables	2,225	2,560	865	747	776	321
Cash and cash equivalents	6,246	6,943	1,950	2,744	1,126	1,779
Assets held for sale	48	48	-	-	1	1
Total assets	**171,407**	**170,474**	**64,713**	**61,486**	**60,804**	**46,216**

Equity and liabilities	**Pekao [1) 2)]**		**Alior Bank**			
	30 September 2017	**30 June 2017**	**30 September 2017**	**30 June 2017** (restated)	**31 December 2016** (restated)	**30 September 2016**
Equity						
Equity attributable to the equity holders of the Parent Company	22,197	21,638	6,269	6,029	5,784	5,489
Share capital	262	262	1,293	1,293	1,293	1,293
Other equity	20,600	20,578	5,007	4,972	4,298	4,342
Retained earnings	1,335	798	(31) [3)]	(236) [3)]	193 [3)]	(146) [3)]
Non-controlling interests	16	15	1	1	1	1
Total equity	**22,213**	**21,653**	**6,270**	**6,030**	**5,785**	**5,490**
Liabilities						
Provisions for employee benefits	391	383	38	46	43	15
Other provisions	262	248	111	174	276	11
Deferred tax liability	4	5	2	-	-	-
Financial liabilities	145,460	142,846	57,024	54,091	53,266	39,992
Other liabilities	3,077	5,339	1,268 [3)]	1,145 [3)]	1,434 [3)]	708 [3)]
Total liabilities	**149,194**	**148,821**	**58,443**	**55,456**	**55,019**	**40,726**
Equity and liabilities, total	**171,407**	**170,474**	**64,713**	**61,486**	**60,804**	**46,216**

[1)] Since the settlement of the acquisition of Pekao shares presented in these condensed interim consolidated financial statements is provisional in nature, the data presented do not include the effect of the fair value measurement of the balance sheet items and the possible intangible assets that may be identified in the purchase price allocation process.
[2)] Since control over Pekao was acquired on 7 June 2017, no data were presented for comparative periods (31 December 2016 and 30 September 2016).
[3)] Including the effect of the adjustment to the measurement of balance sheet items at fair value as at the consolidation date and their further measurement and the amortization of intangible assets identified in the acquisition of Alior Bank.

Statement of profit or loss	**Pekao [1)]**	**Alior Bank**	
	1 June – 30 September 2017	**1 January – 30 September 2017**	**1 January – 30 September 2016**
Fees and commission income	729	628	417
Net investment income	2,012	3,065 [2)]	2,054 [2)]
Net result on the realization of investments and impairment charges	(140)	(651)	(519)
Net movement in the fair value of assets and liabilities measured at fair value	20	(158)	19
Other operating income	92	126	59
Fees and commission expenses	(104)	(250)	(164)
Interest expenses	(345)	(469)	(444)
Administrative expenses	(1,074)	(1,388) [3)]	(801) [3)]
Other operating expenses	(272)	(335) [4)]	(244) [4)]
Operating profit	**918**	**568**	**377**
Share of the profit of entities measured by the equity method	14		-
Profit before tax	**932**	**568**	**377**
Income tax	(218)	(158)	(95)
Net profit	**714**	**410**	**282**

[1)] Since control over Pekao was acquired on 7 June 2017, no data were presented for the period from 1 January to 30 September 2016.
[2)] Including PLN 65 million (from 1 January to 30 September 2016: PLN 63 million) of positive impact from the differences in interest income on the loan portfolio carried at fair value as at the date of acquisition of Alior Bank.
[3)] Including PLN 8 million (from 1 January to 30 September 2016: PLN 8 million) of positive impact of the settlement of a liability arising from unfavorable (liability-generating) real property lease agreements recognized as a result of the acquisition of Alior Bank.
[4)] Including PLN 27 million (from 1 January to 30 September 2016: PLN 34 million) of costs resulting from amortization of intangible assets (relations with clients holding current accounts) resulting from the acquisition of Alior Bank.

Statement of comprehensive income	Pekao [1)]	Alior Bank	
	1 June – 30 September 2017	1 January – 30 September 2017	1 January – 30 September 2016
Net profit	714	410	282
Other comprehensive income – subject to subsequent transfer to the statement of profit or loss	31	75	(29)
Measurement of financial instruments available for sale	(2)	65	(11)
Net cash flow hedging	33	10	(18)
Total net comprehensive income	**745**	**485**	**253**

[1)] Since control over Pekao was acquired on 7 June 2017, no data were presented for the period from 1 January to 30 September 2016.

Cash flow statement	Pekao [1)]	Alior Bank	
	1 June – 30 September 2017	1 January – 30 September 2017	1 January – 30 September 2016
Net cash flow on operating activity	(2,485)	(556)	(261)
Net cash flow on investing activity	3,053	1,309	(2,757)
Net cash flow on financing activity	684	131	2,707
Total net cash flow	**1,252**	**884**	**(311)**

[1)] Since control over Pekao was acquired on 7 June 2017, no data were presented for the period from 1 January to 30 September 2016.

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

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

Consolidated statement of profit or loss for the period from 1 January to 30 September 2017	PZU Group	Exclusion of Alior Bank data	Exclusion of Pekao data	Elimination of consolidation adjustments	Group without Alior Bank and Pekao
Gross written premiums	16,933	-	-	-	16,933
Reinsurers' share in gross written premium	(302)	-	-	-	(302)
Net written premium	**16,631**	**-**	**-**	**-**	**16,631**
Movement in the net provision for unearned premiums	(782)	-	-	-	(782)
Net earned premium	**15,849**	**-**	**-**	**-**	**15,849**
Fees and commission income	1,512	(628)	(729)	10	165
Net investment income	6,150	(3,065)	(2,012)	9	1,082
Net result on the realization of investments and impairment charges	(663)	651	140	-	128
Net movement in the fair value of assets and liabilities measured at fair value	346	158	(20)	-	484
Other operating income	851	(126)	(92)	-	633
Claims and movement in technical provisions	(11,566)	-	-	-	(11,566)
Reinsurers' share in claims and movement in technical provisions	314	-	-	-	314
Net insurance claims and benefits	**(11,252)**	**-**	**-**	**-**	**(11,252)**

Consolidated statement of profit or loss for the period from 1 January to 30 September 2017	**PZU Group**	**Exclusion of Alior Bank data**	**Exclusion of Pekao data**	**Elimination of consolidation adjustments**	**Group without Alior Bank and Pekao**
Fees and commission expenses	(370)	250	104	-	(16)
Interest expenses	(884)	469	345	(9)	(79)
Acquisition expenses	(2,142)	-	-	(10)	(2,152)
Administrative expenses	(3,644)	1,388	1,074	(8)	(1,190)
Other operating expenses	(1,857)	335	272	8	(1,242)
Operating profit (loss)	**3,896**	**(568)**	**(918)**	**-**	**2,410**
Share of the financial results of entities measured by the equity method	9	-	(14)	-	(5)
Profit (loss) before tax	**3,905**	**(568)**	**(932)**	**-**	**2,405**
Income tax	(902)	158	218	-	(526)
Net profit (loss)	**3,003**	**(410)**	**(714)**	**-**	**1,879**

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

1.4.1. Business combination transactions

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

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

1.4.1.1. Acquisition of Pekao shares

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

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

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

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

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

2017. PZU directly acquired a stake in Pekao representing approximately 20% of the total number of votes and at the same time PFR directly acquired a stake in Pekao representing approximately 12.8% of the total number of votes.

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

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

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

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

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

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

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

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

The total amount to be paid to PGAM is EUR 140 million and also includes the price for 35% of Pioneer PTE's shares.

On 17 October 2017, Pekao acquired 35% of Pioneer PTE shares for the total price of PLN 8 million. As a result of the transaction, Pekao holds a 100% stake in Pioneer PTE.

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

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

Following the purchase of the above shares, Pekao will hold 100% of the share capital and all the votes at the Shareholder Meeting of PPIM and at the Partner Meeting of Xelion.

Shareholder agreement between PZU and PFR

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

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

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

On 29 March 2017, PZU and PFR signed an annex to the Shareholder Agreement aimed at adapting it to the new structure of the Transaction.

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

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

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

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

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

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

Tentative settlement of the acquisition of Pekao

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

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

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

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

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

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

[1] measured as the percentage of the fair value of identifiable net assets

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

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

On 4 November 2016, Alior Bank purchased Bank BPH's Core Business. Below, identifiable purchased assets and acquired liabilities are presented as at the acquisition date, taking into account the adjustments made in the valuation period.

Final settlement of the acquisition of Bank BPH's Core Business

Fair value of acquired assets and liabilities as at the date of the assumption of control	Provisional settlement	Adjustment	Final settlement
Intangible assets	48	-	48
Property, plant and equipment	271	-	271
Financial assets	13,577	(14)	13,563
Available for sale	301	17 [1]	318
Measured at fair value through profit or loss	3,691	-	3,691
Loans including loan receivables from clients	9,585	(31) [2]	9,554
Cash	1,043	-	1,043
Other assets	271	16 [3]	287
New intangible assets identified during the acquisition, including:	42	-	42
- relations with clients	42	-	42
Total assets	**15,252**	**2**	**15,254**
Financial liabilities, including:	13,166	-	13,166
Derivatives	38	-	38
Liabilities to banks	370	-	370
Liabilities to clients	12,534	-	12,534
Liabilities under bank securities	224	-	224
Other provisions	121	-	121
Other liabilities	137	(6)	131
- including liabilities arising from unfavorable (liability-generating) real property lease agreements	19	(6) [4]	13
Total liabilities	**13,424**	**(6)**	**13,418**
Fair value of net assets acquired	**1,828**	**8**	**1,836**

[1] The amount of the adjustment results from the final determination of the fair value of VISA's shares.
[2] The amount of the adjustment results from the final determination of the fair value of the portfolio of loan receivables of Bank BPH's Core Business.
[3] The amount of the adjustment results from the final determination of the fair value of VISA's deferred payment (PLN +7 million) and a deferred tax asset on the valuation of loan receivables and recognized liabilities arising from unfavorable (liability-generating) lease agreements.
[4] The amount of the adjustment results from the final determination of the recognized liabilities arising from unfavorable (liability-generating) lease agreements.

Calculation of bargain purchase gain	Provisional settlement	Adjustment	Final settlement
Consideration transferred	1,465	-	1,465
Contingent payment, including:	(145)	51	(94)
Right to refund of part of the payment previously made as adjustment of the net assets to the level corresponding to the Tier 1 coefficient of 13.25%	(52)	31	(21)
Right to refund, by GE Group shareholders, of part of the payment previously made as adjustment of the purchase price	(93)	20	(73)
Fair value of identifiable net assets	(1,828)	(8)	(1,836)
Bargain purchase gain	**(508)**	**43**	**(465)**

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

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

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

1.4.1.4. Purchase of shares in NZOZ Trzebinia

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

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

1.4.1.5. Acquisition of shares of Battersby Investments SA and shares of Tulare Investments sp. z o.o. and PZU Corporate Member Limited

On 15 September 2017, PZU acquired 100,000 shares in Battersby Investments SA, representing 100% of the share capital and entitling it to 100% of votes at the shareholder meeting, and 100 shares in Tulare Investments sp. z o.o., representing 100% of the share capital and entitling it to 100% of votes at the shareholder meeting.

On 28 September 2017, PZU acquired shares in PZU Corporate Member Limited, entitling it to 100% of votes at the shareholder meeting.

The total price for the acquisition of all the above companies was PLN 126 thousand.

All the companies were consolidated as of the moment of the assumption of control (as of 15 September 2017 and 28 September 2017, respectively).

1.4.1.6. Consolidated statement of profit or loss including acquired entities

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

Consolidated statement of profit or loss	**1 January – 30 September 2017**
Gross written premiums	16,933
Reinsurers' share in gross written premium	(302)
Net written premium	**16,631**
Movement in the net provision for unearned premiums	(782)
Net earned premium	**15,849**
Fees and commission income	2,412
Net investment income	8,627
Net result on the realization of investments and impairment charges	(872)
Net movement in the fair value of assets and liabilities measured at fair value	407
Other operating income	988
Claims and movement in technical provisions	(11,566)
Reinsurers' share in claims and movement in technical provisions	314
Net insurance claims and benefits	**(11,252)**
Fees and commission expenses	(495)
Interest expenses	(1,317)
Acquisition expenses	(2,142)
Administrative expenses	(4,942)
Other operating expenses	(2,418)
Operating profit	**4,845**
Share of the financial results of entities measured by the equity method	27

Consolidated statement of profit or loss	1 January – 30 September 2017
Profit before tax	**4,872**
Income tax	(1,162)
Net profit, including:	**3,710**
- profit attributable to the equity holders of the parent company	2,287
- profit attributable to holders of non-controlling interests	1,423

1.4.2. Changes to the consolidation of mutual funds

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

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

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

2. 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 share 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

In the period from 1 January 2017 to the date of conveying this periodic report, there occurred one change in the ownership structure of significant shareholdings in PZU. On 29 May 2017, PZU received a notification pertaining to a change in the shareholding of PZU by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"). According to the notification, as a result of transactions to sell PZU shares executed on 24 May 2017, on 26 May 2017, Aviva OFE reduced its PZU shareholding to 4.89% of PZU's share capital, representing 4.89% of the total number of votes at PZU's Shareholder Meeting.

2.2 Highest ranking parent company of PZU

As at 30 September 2017, the State Treasury held 34.1875% of PZU shares giving it the right to exercise 34.1875% of votes at the Shareholder Meeting. Therefore, there was no highest ranking parent of PZU that would prepare consolidated financial statements.

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

Neither as at the date of conveying this periodic report nor as at the date of conveying this periodic report [sic!] did any of the members of the Management Board or the Supervisory Board or the Directors of the PZU Group hold any PZU shares or rights to PZU shares.

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

3.1 Composition of the parent company's Management Board

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

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

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

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

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

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

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

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

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

3.2 Composition of the parent company's Supervisory Board

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

- Paweł Kaczmarek – Supervisory Board Chairman;
- Marcin Gargas – Supervisory Board Deputy Chairman;
- Maciej Zaborowski – Supervisory Board Secretary;

- Marcin Chludziński – Supervisory Board Member (in the period 23 March – 12 April 2017 delegated to temporarily act as the President of the PZU Management Board;
- Eligiusz Krześniak – Supervisory Board Member;
- Alojzy Nowak – Supervisory Board Member;
- Jerzy Paluchniak – Supervisory Board Member;
- Piotr Paszko – Supervisory Board Member;
- Radosław Potrzeszcz – Supervisory Board Member.

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

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

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

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

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

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

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

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

3.3 PZU Group Directors

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

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

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

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

As of 13 April 2017, Paweł Surówka, and as of 31 October 2017, Sławomir Niemierka, ceased to be Directors of the PZU Group.

From 1 November 2017 to the date of conveying this periodic report, the following persons were PZU Group Directors:

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

4. Key accounting principles (accounting policy)

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

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

4.1.1. Amendments to the applied IFRS

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

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

4.1.1.2. Standards, interpretations and amended standards not yet effective

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

- Approved by the European Commission:

Name of standard/ interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	1905/2016	IFRS 15 specifies how and when to recognize revenues and requires the presentation of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of interpretations related to revenue recognition. The standard applies to almost all agreements with customers (the main exceptions concern lease agreements, financial instruments and insurance agreements). The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of goods or services to customers and in an amount that reflects the value of consideration (i.e. the payment) which the company expects to obtain a right to in exchange for the goods or services. The standard also provides guidelines for recognizing transactions that were not regulated in detail in previous standards (e.g. revenues from services or modification of agreements) and contains more comprehensive explanations on the recognition of agreements with multiple deliverables. Revenues covered by IFRS 15 are of secondary importance to the financial reporting of the PZU Group. While implementing IFRS 15, the PZU Group will take into account the materiality principle (benefits outweighing costs) and the issue of clear presentations. The PZU Group considers adopting an alternative approach to implementing IFRS 15 permitted in item C3 b) – retrospectively, with joint effect for contracts in force as at 1 January 2018 (date of initial application) recognized once as at that date, which will entail the need to disclose additional data for 2018 also in compliance with the prevailing principles. At this stage, it is not possible to quantify the effect of application of IFRS 15 on the PZU Group's comprehensive income and equity but due to the inapplicability to the PZU Group's basic revenues, the potential impact of application of the new standard will not be material. The PZU Group believes that disclosure of quantitative data that do not reflect the potential impact of all the aspects of IFRS 15 on the financial standing might adversely affect the information value of the financial statements for its readers. Accordingly, the PZU Group does not make such disclosures.

Name of standard/ interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
IFRS 9 – Financial Instruments	1 January 2018	2067/2016	This standard replaces IAS 39 and specifies the requirements for recognition and measurement of impairment, derecognition of financial instruments and hedge accounting. The standard introduces a new approach to the classification of financial assets, based on the nature of cash flows and the business model associated with the relevant assets. The standard also unifies the impairment model for all financial instruments. The new model of expected loss from impairment requires a quicker recognition of expected credit losses. The standard introduces a reformed hedge accounting model with enhanced requirements concerning disclosures of risk management activities. Classification and valuation According to IFRS 9 financial assets are classified for valuation at: • amortized cost; • fair value through profit or loss; • fair value through other comprehensive income. The instruments are classified as at the time of application of IFRS 9 for the first time or at the time of recognition of the instrument. Changes of classification are possible only in very rare cases when the business model changes. Debt instruments Classification of assets follows from the business model and the description of the cash flows generated by individual assets. The business model defines the purpose of holding the given financial instrument (obtaining contractual cash flows or realizing changes of fair value). The description of the cash flows defines whether these are solely principal and interest – SPPI payments. If the instrument passes the SPPI test and the business model assumes that the instrument is held to obtain contractual cash flows, the debt instrument qualifies for valuation at amortized cost. The entity may choose measurement at fair value through profit or loss if this eliminates inconsistencies in the valuation methods. The measurement at fair value through other comprehensive income includes those instruments, where the business model assumes acquisition of contractual cash flows as well as realization of profit through the sale of the instrument. The option is available only for instruments passing the SPPI test. If this option is selected all changes to the fair value are posted in other comprehensive income and impairment charges, interest income and foreign exchange differences are presented in the statement of profit or loss. Equity-based assets Equity-based assets are measured at fair value through profit or loss or other comprehensive income. If the latter option is selected, the fair values are posted in other comprehensive income and are never transferred to the statement of profit or loss. Dividends and impairment charges on such assets are recognized in the statement of profit or loss. Financial liabilities

Name of standard/ interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
			Valuation of financial liabilities does change significantly, except for the necessity to recognize changes in the fair value resulting from changes of own credit risk in other comprehensive income. Impairment IFRS 9 introduces an obligation to recognize not only incurred losses, as in the case of IAS 39, but also expected losses. Debt assets carried at amortized cost and fair value through other comprehensive income, impairment is measured as 12-month or life-long expected credit losses. Change of the approach will have significant consequences in the case of modelling of the credit risk parameters and final amount of the charges made. The loss identification period and IBNR charge will be no longer used. The charge will be calculated in three categories: • basket 1 – basket with low credit risk – 12-month expected credit loss will be recognized; • basket 2 – the portfolio in which a significant increase of credit risk occurs – a life-long expected credit loss will be recognized; • basket 3 – impaired loans – a life-long expected credit loss will be recognized. The method of calculation of the impairment charge will also impact the method of recognizing the interest income – for baskets 1 and 2 it will be determined on the basis of gross exposures, and in basket 3 on the net basis. If credit risk increases significantly (basket 2) then the expected credit losses will be recognized earlier, which will contribute to higher impairment charges and consequently affect the financial result. Hedge accounting On the date of implementation of IFRS 9 it is possible to opt to continue application of the hedge accounting requirements in accordance with IAS 39. In such a case, consistency of the applied hedging links with the risk management strategy should be ensured. Additionally, IFRS 9 increases the range of the positions that can be defined as hedged positions, makes it possible to determine financial assets or liabilities carried at fair value through profit or loss as a hedging instrument, waives the obligation to retrospectively measure the effectiveness of the hedging, increases the scope of the required disclosures pertaining to the strategy for management of the risk of cash flows following from hedging transactions and impact of the hedge accounting on the financial statements. The PZU Group reviews the financial assets and their allocation to the appropriate business model and estimates that: • receivables from banks, loans and borrowings and debt securities classified in the loans portfolio in accordance with IAS 39 will be measured in the vast majority of cases at amortized cost under IFRS 9, except for the assets that do not satisfy the SPPI criterion; • debt securities classified as held to maturity are held in order to collect contractual cash flows and will be measured at amortized cost under IFRS 9; • most debt securities classified as available for sale are held to both collect contractual cash flows and to be sold and will be measured at fair value through other comprehensive income under IFRS 9;

Name of standard/ interpretation	Date of entry into effect for annual periods starting	Regulation approving the standard or interpretation	Commentary
			• financial assets and liabilities held for trading, including assets and liabilities under derivative financial instruments will continue to be measured at fair value through profit or loss; • equity instruments classified as available for sale will be generally measured at fair value through profit or loss. For some exposures, the PZU Group is considering selection of the measurement option through other comprehensive income; however, the final decision in this respect has not yet been made; • implementation of IFRS 9 may result in changes to classification of certain financial assets (in particular the necessity to carry certain financial assets (especially loan receivables) at fair value as they do not pass the SPPI test). Introduction of the new impairment model will impact the amount of the impairment charges in the PZU Group, particularly as regards the exposures classified as basket 2. As at the date of implementation of IFRS 9, the one-off change resulting from adoption of the new models will be recognized in equity. The requirements of IFRS 9 will result in a significant change of presentation of financial instrument disclosures. The PZU Group intends to take advantage of the exemption not to restate the comparative data from prior periods in respect to the changes resulting from classification and measurement (including impairment). The differences in the carrying amount of financial assets and liabilities arising from the application of IFRS 9 will be recognized in the "Retained earnings" item. At this stage, it is not possible to estimate the effect of application of IFRS 9 on the PZU Group's comprehensive income and equity. The PZU Group believes that disclosure of quantitative data that do not reflect the potential impact of all the aspects of IFRS 9 on the financial standing might adversely affect the information value of the financial statements for its readers. Accordingly, the PZU Group does not make such disclosures.

- Not approved by the European Commission:

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

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

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

Name of standard/ interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
Amendment to IAS 28 – Long-term shares in associates and joint ventures	12 October 2017	1 January 2019	According to the amended IAS 28, long-term shares 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 will not affect to a material extent the PZU Group's consolidated financial statements.

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

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

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

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

4.2.1.1. Settlement of the acquisition of Bank BPH's Core Business

Due to the completion of the final settlement of the acquisition of Bank BPH's Core Business, a retroactive restatement of data as at 31 December 2016 has been performed. More information on this settlement is presented in item 1.4.1.2.

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

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

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

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

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

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

4.2.1.5. Change to presentation of receivables on account of deposits and guarantees.

To reflect better the economic character of receivables on account of deposits and guarantees paid, these receivables have been transferred from other assets to receivables.

4.2.1.6. Change to presentation of costs of services provided to banks

To reflect better the economic character of the costs incurred, some costs of services purchased by banks have been transferred from fees and commission expenses to administrative expenses.

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

The changes described in this item were taken into consideration in the consolidated financial statements. To ensure comparability, in the interim consolidated financial statements, the data for the 9 months ended 30 September 2016 were restated accordingly.

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

To improve the clarity of the condensed interim consolidated financial statements, all amounts were presented in millions of PLN, instead of in thousands of PLN, as has been done so far. As a consequence of conversion of thousands into millions of PLN some amounts may differ from the amounts presented in the condensed interim consolidated financial statements for the 9 months ended 30 September 2016 due to rounding.

4.2.2.2. Change of the segment reporting presentation method

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

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

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

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

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

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

Assets	30 June 2017 *(historical)*	Adjustment	30 June 2017 *(restated)*	31 December 2016 *(historical)*	Adjustment	31 December 2016 *(restated)*	30 September 2016 *(historical)*	Adjustment	30 September 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Other assets	892	7 [1] (20) [2]	879	871	7 [1] (12) [2]	866	2,122	(13) [2] (125) [3]	2,234	699	(12) [2] 114 [3]	801
Estimated salvage and subrogation	n/a	n/a	n/a	n/a	n/a	n/a	125	(125) [3]	item deleted	114	(114) [3]	item deleted
Financial assets	257,125	(6) [1]	257,119	105,300	(14) [1]	105,286	91,957	-	91,957	89,229	-	89,229
Available for sale	31,674	17 [1]	31,691	11,635	17 [1]	11,652	8,281	-	8,281	7,745	-	7,745
Loans	183,515	(23) [1]	183,492	54,365	(31) [1]	54,334	43,759	-	43,759	43,326	-	43,326
Deferred tax assets	1,586	7 [1]	1,593	624	9 [1]	633	482	-	482	369	-	369
Receivables	10,222	(21) [1] 20 [2]	10,221	5,703	(51) [1] 12 [2]	5,664	6,602	13 [2] 17 [3]	6,632	3,271	12 [2] 67 [3]	3,350
Current income tax receivables	n/a	n/a	n/a	n/a	n/a	n/a	17	(17) [3]	item deleted	67	(67) [3]	item deleted
Total assets	**295,262**	**(13) [1]**	**295,249**	**125,345**	**(49) [1]**	**125,296**	**112,914**	**-**	**112,914**	**105,397**	**-**	**105,397**

[1] Change described in item 4.2.1.1.
[2] Change described in item 4.2.1.5.
[3] Change described in item 4.2.2.3.

Equity and liabilities	30 June 2017 *(historical)*	Adjustment	30 June 2017 *(restated)*	31 December 2016 *(historical)*	Adjustment	31 December 2016 *(restated)*	30 September 2016 *(historical)*	Adjustment	30 September 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Equity												
Equity attributable to the equity holders of the Parent Company	13,154	(1) [1)]	13,153	13,010	(12) [1)]	12,998	12,377	-	12,377	12,924	-	12,924
Retained earnings	1,160	(1) [1)]	1,159	2,055	(12) [1)]	2,043	1,417	-	1,417	2,696	-	2,696
Net profit	1,446	-	1,446	1,947	(12) [1)]	1,935	1,309	-	1,309	-	-	-
Non-controlling interests	21,474	(6) [1)]	21,468	4,117	(31) [1)]	4,086	3,891	-	3,891	2,194	-	2,194
Total equity	**34,628**	**(7) [1)]**	**34,621**	**17,127**	**(43) [1)]**	**17,084**	**16,268**	**-**	**16,268**	**15,118**	**-**	**15,118**
Other liabilities	10,797	(6) [1)]	10,791	4,997	(6) [1)]	4,991	6,778	75 [2)]	6,853	3,501	69 [2)]	3,570
Current income tax liabilities	n/a	N/a	n/a	n/a	n/a	n/a	75	(75) [2)]	item deleted	69	(69) [2)]	item deleted
Total liabilities	**260,634**	**(6) [1)]**	**260,628**	**108,218**	**(6) [1)]**	**108,212**	**96,646**	**-**	**96,646**	**90,279**	**-**	**90,279**
Equity and liabilities, total	**295,262**	**(13) [1)]**	**295,249**	**125,345**	**(49) [1)]**	**125,296**	**112,914**	**-**	**112,914**	**105,397**	**-**	**105,397**

[1)] Change described in item 4.2.1.1.
[2)] Change described in item 4.2.2.3.

Consolidated statement of profit or loss	**1 January – 30 September 2016** *(historical)*	**Adjustment**	**1 January – 30 September 2016** *(restated)*
Fees and commission income	576	6 [1)]	582
Net investment income	3,052	(28) [2)]	3,024
Net movement in the fair value of assets and liabilities measured at fair value	96	(41) [2)]	55
Other operating income	652	(6) [1)]	646
Fees and commission expenses	(193)	7 [4)]	(186)
Interest expenses	(575)	69 [2)]	(506)
Administrative expenses	(1,884)	(36) [3)] (7) [4)]	(1,927)
Other operating expenses	(1,418)	36 [3)]	(1,382)
Net profit	**1,508**	**-**	**1,508**

[1)] Change described in item 4.2.1.2.
[2)] Change described in item 4.2.1.3.
[3)] Change described in item 4.2.1.4.
[4)] Change described in item 4.2.1.6.

Consolidated cash flow statement	**1 January – 30 September 2016** *(historical)*	**Adjustment**	**1 January – 30 September 2016** *(restated)*
Profit before tax	1,958	-	1,958
Reinsurers' share in gross written premium	206	(206)	-
Other adjustments	(183)	206	23
Net cash flow on operating activity	**702**	**-**	**702**
Realization of debt securities	125,489	(168)	125,321
Interest received	979	168	1,147
Cash inflows on investing activity	**774,560**	**-**	**774,560**

[2)] Change described in item 4.2.2.4.

5. Key estimates and judgments

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

6. Corrections of errors from previous years

During the 9-month period from 1 January to 30 September 2017, no corrections of errors from previous years were made.

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

7.1 Acquisition of Pekao

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

7.2 Distribution of PZU's 2016 financial result

On 29 June 2017, the PZU Ordinary Shareholder Meeting adopted a resolution on distribution of net profit for 2016. This matter is described in item 22.

7.3 Key dividends paid between PZU Group companies

7.3.1. Dividend from PZU Życie to PZU

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

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

The record date fell on 28 June 2017 and the dividend payment date was set at 17 October 2017.

7.3.2. Dividend from Pekao to PZU

On 19 April 2017, the Ordinary Shareholder Meeting of Pekao adopted a resolution on distribution of Pekao's net profit for the 2016 financial year, resolving to pay out a dividend of PLN 2,278 million, i.e. PLN 8.68 per share.

The record date fell on 21 June 2017 and the dividend payment date was set at 6 July 2017. PZU received dividend of PLN 456 million.

7.3.3. Dividend from PTE PZU to PZU Życie

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

8. Material events after the end of the reporting period

8.1 Subordinated bond issue by Pekao

On 19 October 2017, the Pekao Management Board decided to issue subordinated bonds and to earmark the funds from the issue – having been granted consent from the KNF – to increase the amount of Pekao's supplementary founds.

At the same time, the Pekao Management Board announced that, in connection with a great interest of expressed by investors during the book building process, it took the decision to increase the originally considered amount of the issue from PLN 1,000 million to PLN 1,250 million. The bonds bear interest at a floating interest rate based on WIBOR 6M plus a margin of 1.52%. The maturity of the bonds is 10 years, with a reserved call option giving the right to redeem all the bonds in 5 years from the issue date, provided that the KNF grants consent to that. The issue took place on 30 October 2017. The bonds will be introduced into the alternative trading system on the Catalyst market.

8.2 Subordinated bond issue by Alior Bank

On 14 September 2017, the Management Board of Alior Bank resolved to give consent to start the bookbuilding process in connection with the preparation of a private issue of unsecured subordinated bonds of Alior Bank bearing a floating interest rate (based on WIBOR6M), which, after the KNF grants consent in compliance with Article 127 of the Banking

Law, will qualify as instruments in Tier II. After the completion of the bookbuilding process, in connection with a large demand for the bonds, the Alior Bank Management Board adopted a resolution on the issue of series K subordinated bonds, with the total nominal value not higher than PLN 400 million, and an additional issue of series K1 subordinated bonds with the total nominal value not exceeding PLN 200 million. The issues of series K and K1 bonds were settled on 20 October 2017. The maturity of the bonds is 8 years.

8.3 Mandate contract on periodic granting of insurance guarantees

On 8 November 2017, PZU executed a mandate contract with Alior Bank on periodic granting of insurance guarantees constituting unfunded credit protection as defined in the CRR Regulation ("Guarantee Agreement"). In addition, PZU executed a framework mandate contract on periodic granting of counter-guarantees securing the performance of PZU's obligations to Alior Bank.

The agreement defines the rules governing the granting of guarantees by PZU within the awarded exposure limit, as requested by and for Alior Bank. The maximum exposure limit for the guarantees granted under the contract is PLN 5 billion. The terms of the limit is 3 years. The limit is renewable, which means that when the guarantees granted within the limit expire, the limit is renewed by the "released" amount reduced by possible amounts disbursed from the guarantee. The maximum term of validity of the guarantee granted under the agreement is 3 years plus the time for reporting claims. Alior Bank's share in due and payable credit receivables is 10%.

The fee for extending the guarantee will depend, among other things, on the amount of the indemnity, the quality of the portfolio secured by the guarantee, the portfolio amortization and the premium for the counter-guarantee.

The Guarantee Contract contemplates contractual penalties that may be due to PZU from Alior Bank in the event of Alior Bank's breaching certain obligations stemming from the Guarantee Contract. The total maximum amount of contractual penalties cannot exceed PLN 2 million. The Guarantee contract does not rule out the possibility of pursuing claims exceeding the sum total of the contractual penalties.

The framework mandate contract on periodic granting of counter-guarantees defines the rules for granting counter-guarantees ordered by PZU and issued to Alior Bank. The available limit of the counter-guarantee is PLN 2.6 billion. The available limit will be reduced each time when each counter-guarantee is extended, by the guaranteed amount specified in the counter-guarantee; the available counter-guarantee limit is renewable, which means that the limit is renewed when a counter-guarantee expires.

8.4 Acquisition of Pioneer PTE shares

On 17 October 2017, Pekao acquired 35% of Pioneer PTE shares for the total price of PLN 8 million. As a result of the transaction, Pekao holds a 100% stake in Pioneer PTE.

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premiums

Gross written premiums	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Gross written premiums in non-life insurance	3,182	10,520	2,822	8,715
In direct insurance	3,177	10,526	2,814	8,690
In indirect insurance	5	(6)	8	25
Gross written premiums in life insurance	2,145	6,413	2,022	5,991
Individual insurance premiums	428	1,266	334	912
Individually continued insurance premiums	500	1,485	485	1,459
Group insurance premiums	1,217	3,662	1,203	3,620
Gross written premiums, total	**5,327**	**16,933**	**4,844**	**14,706**

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 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Accident and sickness insurance (class 1 and 2)	166	461	171	444
Motor third party liability insurance (class 10)	1,411	4,302	1,114	3,173
Other motor insurance (class 3)	877	2,757	776	2,349
Marine, air and cargo insurance (classes 4, 5, 6, 7)	11	50	12	67
Insurance against fire and other property damage (classes 8 and 9)	427	1,946	454	1,716
TPL insurance (classes 11, 12, 13)	124	535	142	529
Credit and guarantee insurance (classes 14, 15)	23	69	15	49
Assistance (class 18)	115	324	104	286
Legal protection (class 17)	2	7	2	5
Other (class 16)	21	75	24	72
Total	**3,177**	**10,526**	**2,814**	**8,690**

9.2 Fees and commission income

Fees and commission income	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Banking activity	685	1,245	136	411
Brokerage commissions	70	139	13	43
Fiduciary activity	19	24	-	-
Administration of payment cards and credit cards	211	358	23	72
Intermediary fees on insurance sold	33	71	13	63
Loans and borrowings	104	184	16	44
Administration of bank accounts	109	209	28	80
Transfers	74	125	10	28
Cash operations	27	53	7	18
Purchased receivables	7	16	2	6
Guarantees, letters of credit, collection, commitment letters	19	30	4	11
Other commissions	12	36	20	46
Pension insurance	33	96	24	81
Commissions on distribution fees	1	4	1	4
Commissions on asset management in an open-end pension fund	32	88	23	69
Other	-	4	-	8
Revenues from fees relating to investment contracts for the client's account and risk	1	4	2	5
Revenues and payments received from funds and mutual fund companies	91	167	25	85
Fees and commission income, total	**810**	**1,512**	**187**	**582**

9.3 Net investment income

Net investment income	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Interest income	2,632	5,454	940	2,719
Bank loans	2,008	3,983	602	1,701
Available for sale financial assets	192	331	46	124
Financial assets held to maturity	245	691	207	611
Loans	105	287	69	226
Purchased receivables	31	52	3	15
Hedge derivatives	31	60	3	16
Receivables, including receivables due under insurance contracts	12	27	5	11
Cash and cash equivalents	8	23	5	15
Dividend income	22	38	30	67
Financial assets classified for measurement at fair value through profit or loss upon first recognition	19	30	19	44
Financial assets held for trading	4	6	10	20
Available for sale financial assets	(1)	2	1	3
Income on investment properties	65	190	60	177
Foreign exchange differences	182	540	122	143
Other revenue	7	19	7	4
Investment activity expenses	(3)	(19)	(8)	(21)
Investment property maintenance expenses	(22)	(72)	(6)	(65)
Net investment income, total	**2,883**	**6,150**	**1,145**	**3,024**

9.4 Net result on the realization of investments and impairment charges

Net result on the realization of investments and impairment charges	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Net result on the realization of investments	(8)	230	230	164
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	(39)	11	89	67
Equity instruments	(17)	(3)	82	47
Debt securities	(22)	14	7	20
Financial assets held for trading:	27	224	140	22
Equity instruments	46	86	48	9
Debt securities	52	(27)	(15)	17
Derivatives	(71)	165	107	(4)
Available for sale financial assets	21	11	14	77
Equity instruments	-	(9)	7	7
Debt securities	21	20	7	70
Loans	3	25	2	22
Receivables	(20)	(49)	(17)	(36)
Investment properties	-	7	2	11
Other	-	1	-	1
Impairment charges	(354)	(893)	(204)	(608)
Available for sale financial assets	-	-	-	(7)
Debt instruments	-	-	-	(7)
Loans	(332)	(830)	(197)	(547)
Debt securities	(2)	5	-	(23)
Loan receivables from clients	(330)	(835)	(197)	(524)
Receivables	(13)	(54)	(7)	(46)
Goodwill of acquired credit unions	-	-	-	(8)
Entities measured by the equity method – EMC Instytut Medyczny SA	(9)	(9)	-	-
Net result on the realization of investments and impairment charges, total	**(362)**	**(663)**	**26**	**(444)**

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

Net movement in the fair value of assets and liabilities measured at fair value	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	115	283	26	(12)
Equity instruments	105	327	20	(193)
Debt securities	18	17	25	203
Measurement of liabilities to members of consolidated mutual funds	(6)	(40)	(10)	(17)
Investment contracts for the client's account and risk (*unit-linked*)	(2)	(21)	(9)	(5)
Financial instruments held for trading	169	236	54	16
Equity instruments	49	198	60	(35)
Debt securities	81	158	(42)	93
Derivatives	50	(99)	36	(42)
Financial liabilities	(11)	(21)	-	-
Investment properties	(4)	(174)	(21)	51
Fair value hedging instruments	-	1	-	-
Net movement in the fair value of assets and liabilities measured at fair value, total	**280**	**346**	**59**	**55**

9.6 Other operating income

Other operating income	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	137	354	107	313
Revenues from direct claims handling on behalf of other insurance undertakings	51	158	53	160
Reversal of provisions	32	68	7	16
Reimbursement of the costs of pursuit of claims	6	26	5	16
Reinsurance commissions and profit-sharing	14	32	6	22
Reversal of impairment charges on non-financial assets	1	18	-	5
Interest on late payment of amounts due under direct insurance and outward reinsurance contracts	6	14	23	36
Commissions for acting as an emergency adjuster	2	5	1	5
Written off liabilities on account of premium refunds and payment surpluses	9	57	8	12
Other	63	119	24	61
Other operating income, total	**321**	**851**	**234**	**646**

9.7 Claims and movement in technical provisions

Claims and movement in technical provisions	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Claims and movement in technical provisions	4,187	11,566	3,607	9,838
In non-life insurance	2,536	6,404	1,995	5,310
- claims and benefits in non-life insurance	1,997	5,256	1,665	4,901
- movement in technical provisions in non-life insurance	342	577	160	(114)
- claims handling expenses in non-life insurance	197	571	170	523
In life insurance	1,651	5,162	1,612	4,528
- claims and benefits in life insurance	1,392	4,451	1,418	4,367
- movement in technical provisions in life insurance	227	614	157	51
- claims handling expenses in life insurance	32	97	37	110
Reinsurers' share in claims and movement in technical provisions	(149)	(314)	(1)	(67)
In non-life insurance	(149)	(314)	(1)	(67)
Total net insurance claims and benefits	**4,038**	**11,252**	**3,606**	**9,771**

9.8 Fees and commission expenses

Fees and commission expenses	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Costs of card and ATM transactions, including costs of card issuance	108	187	18	51
Commissions on acquisition of banking clients	10	29	7	24
Commissions for the availability of ATMs	11	24	6	16
Costs of awards to banking clients	3	15	7	18
Costs of bank transfers and remittances	12	23	3	9
Additional services attached to banking products	5	16	8	22
Brokerage commissions	3	7	1	3
Costs of administration of bank accounts	2	2	-	-
Costs of banknote operations	5	6	-	1
Fiduciary activity expenses	6	7	-	-
Other commissions	16	54	14	42
Fees and commission expenses, total	**181**	**370**	**64**	**186**

9.9 Interest expenses

Interest expenses	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Term deposits	262	484	96	309
Current deposits	88	152	11	27
Own debt securities issued	80	171	44	129
Hedge derivatives	1	17	1	2
Loans	5	5	-	-
Sell-buy-back transactions	15	35	6	28
Bank loans contracted by PZU Group companies	2	5	1	3
Investment contracts with guaranteed and fixed terms and conditions	-	-	-	2
Other	5	15	1	6
Interest expenses, total	**458**	**884**	**160**	**506**

9.10 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Consumption of materials and energy	43	184	47	143
Third party services	395	974	199	574
Taxes and fees	28	69	17	47
Employee expenses	1,139	2,670	499	1,650
Depreciation of property, plant and equipment	96	203	35	108
Amortization of intangible assets	102	214	37	112
Other, including:	756	2,208	675	1,941
- commissions on direct insurance business	538	1,675	472	1,450
- advertising	55	130	39	108
- remuneration of persons handling group insurance in companies	51	156	89	139
- other	112	247	75	244
Movement in capitalized acquisition expenses	4	(68)	5	(100)
Administrative, acquisition and claims handling expenses, total	**2,563**	**6,454**	**1,514**	**4,475**

9.11 Other operating expenses

Other operating expenses	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016 (restated)	1 January – 30 September 2016 (restated)
Tax on certain financial institutions	261	554	109	279
Expenses of the core business of non-insurance companies and non-banking companies	142	415	125	371
Direct claims handling expenses on behalf of other insurance undertakings	54	164	54	165
Compulsory payments to insurance market institutions and banking market institutions	20	58	17	58
Bank Guarantee Fund	33	70	19	56
Insurance Indemnity Fund	17	52	14	42
Fee for the National Fire Brigade Headquarters and the Association of Voluntary Fire Brigades	3	24	3	25
Expenditures for prevention activity	8	29	20	67
Recognition of provisions	38	134	6	18
Amortization of intangible assets purchased in company acquisition transactions	20	61	22	67
Establishing charges for non-financial assets	20	53	2	66
Donations	1	14	-	-
Other	109	229	11	168
Other operating expenses, total	**726**	**1,857**	**402**	**1,382**

9.12 Earnings per share

Earnings per share	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Net profit attributable to the equity holders of the parent company	700	2,146	649	1,309
Basic and diluted weighted average number of common shares	863,522,006	863,518,494	863,495,307	863,510,791
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Amount of treasury shares (held by PZU's subsidiaries)	(994)	(4,506)	(27,693)	(12,209)
Basic and diluted earnings (losses) per common share (in PLN)	0.81	2.49	0.75	1.52

In the 9-month period ended 30 September 2017, there were no transactions or events resulting in the dilution of earnings per share.

9.13 Income tax

Total amount of current and deferred tax	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Recognized through profit or loss	(437)	(902)	(191)	(450)
- current tax	(385)	(826)	(175)	(445)
- deferred tax	(52)	(76)	(16)	(5)
Recognized in other comprehensive income (deferred tax)	(18)	(34)	10	23
Total amount of current and deferred tax	**(465)**	**(936)**	**(181)**	**(427)**

Income tax pertaining to components of other comprehensive income	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Gross other comprehensive income	128	152	(62)	(103)
Income tax	(18)	(34)	10	23
Measurement of financial instruments available for sale and cash flow hedging transactions	(18)	(34)	10	23
Other net comprehensive income	**110**	**118**	**(52)**	**(80)**

9.14 Goodwill

Goodwill	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Pekao	1,711	1,711	-	-
Alior Bank	746	746	746	746
Lietuvos Draudimas AB [1)]	476	467	489	477
Mass insurance segment in non-life insurance (Link4)	221	221	221	221
AAS Balta	39	38	40	39
Medical companies	90	90	82	52
Other	5	5	5	5
Goodwill, total	**3,288**	**3,278**	**1,583**	**1,540**

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

In the 9-month period ended 30 September 2017, there were no premises which would justify carrying out impairment tests. As a consequence, just like in 2016, there were no impairment charges related to goodwill.

9.15 Other assets

Other assets	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016 (restated)
Reinsurance settlements	177	205	403	226
Estimated salvage and subrogation	174	172	161	125
Deferred IT expenses	59	47	41	39
Posted direct claims handling receivables	48	47	49	46
Inventories	159	169	114	134
Settlements on account of purchase of BPH's shares by Alior Bank	-	-	-	1,465
Other assets	164	239	98	199
Other assets, total	**781**	**879**	**866**	**2,234**

9.16 Financial assets

In the 9 months ended 30 September 2017, there was no reclassification of financial assets between the groups carried at fair value and the groups carried at cost or amortized cost.

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

The aforementioned transfer was the only reclassification of this type.

9.16.1. Financial instruments held to maturity

Financial instruments held to maturity	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Debt securities	22,477	23,371	17,346	17,093
Government securities	22,251	23,151	17,117	16,870
Domestic	21,885	22,785	16,741	16,513
Fixed rate	20,576	21,176	15,793	15,570
Floating rate	1,309	1,609	948	943
Foreign	366	366	376	357
Fixed rate	366	366	376	357
Other	226	220	229	223
Listed on a regulated market	101	98	103	99
Fixed rate	101	98	103	99
Not listed on a regulated market	125	122	126	124
Floating rate	125	122	126	124
Financial instruments held to maturity, total	**22,477**	**23,371**	**17,346**	**17,093**

9.16.2. Financial instruments available for sale

Financial instruments available for sale	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016
Equity instruments	624	571	434	406
Listed on a regulated market	363	316	149	129
Not listed on a regulated market	261	255	285	277
Debt instruments	33,759	31,120	11,218	7,875
Government securities	30,656	29,938	7,981	7,131
Domestic	29,699	29,298	7,592	6,754
Fixed rate	22,129	20,146	5,144	4,990
Floating rate	7,570	9,152	2,448	1,764
Foreign	957	640	389	377
Fixed rate	957	640	389	377
Other	3,103	1,182	3,237	744
Listed on a regulated market	696	700	37	171
Fixed rate	696	700	37	127
Floating rate	-	-	-	44
Not listed on a regulated market	2,407	482	3,200	573
Fixed rate	1,982 [1)]	11	2,611 [1)]	-
Floating rate	425	471	589	573
Financial instruments available for sale, total	**34,383**	**31,691**	**11,652**	**8,281**

[1)] including NBP money bills: as at 30 September 2017, PLN 1,970 million (31 December 2016: PLN 2,600 million).

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

Financial instruments measured at fair value through profit or loss	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Instruments classified into this category upon first recognition	**7,247**	**4,865**	**14,479**	**15,110**
Equity instruments	2,160	2,339	2,951	2,717
Listed on a regulated market	1,983	2,201	2,830	2,579
Not listed on a regulated market	177	138	121	138
Debt instruments	5,087	2,526	11,528	12,393
Government securities	5,048	2,488	11,437	12,301
Domestic	4,575	2,009	9,686	10,462
Fixed rate	3,840	1,976	8,257	8,835
Floating rate	735	33	1,429	1,627
Foreign	473	479	1,751	1,839
Fixed rate	473	479	1,674	1,764
Floating rate	-	-	77	75
Other	39	38	91	92
Listed on a regulated market	39	38	91	92
Fixed rate	39	38	91	92
Instruments held for trading	**13,544**	**13,402**	**7,403**	**7,652**
Equity instruments	4,537	4,295	4,066	3,883
Listed on a regulated market	603	548	744	847
Not listed on a regulated market	3,934	3,747	3,322	3,036
Debt instruments	6,899	7,044	2,456	3,017
Government securities	6,688	6,973	2,383	2,943
Domestic	4,790	5,705	1,416	1,721
Fixed rate	3,534	4,912	1,384	1,696
Floating rate	1,256	793	32	25
Foreign	1,898	1,268	967	1,222
Fixed rate	1,879	1,262	967	1,222
Floating rate	19	6	-	-
Other	211	71	73	74
Listed on a regulated market	50	-	-	-
Floating rate	50	-	-	-
Not listed on a regulated market	161	71	73	74
Floating rate	161	71	73	74
Derivatives	2,108	2,063	881	752
Financial instruments measured at fair value through profit or loss, total	**20,791**	**18,267**	**21,882**	**22,762**

9.16.4. Loans

Loans	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016
Debt securities	**12,935**	**13,417**	**2,463**	**2,767**
Government securities	1	34	2	2
Foreign	1	34	2	2
Fixed rate	1	34	2	2
Other	12,934	13,383	2,461	2,765
Not listed on a regulated market	12,934	13,383	2,461	2,765
Fixed rate	1,333	1,102	-	-
Floating rate	11,601	12,281	2,461	2,765
Other	**174,192**	**170,075**	**51,871**	**40,992**
Loan receivables from clients	166,735	162,039	44,998	34,501
Buy-sell-back transactions	1,573	2,238	2,880	1,262
Term deposits in credit institutions	2,328	2,127	2,285	3,600
Loans	3,556	3,671	1,708	1,629
Loans, total	**187,127**	**183,492**	**54,334**	**43,759**

Loan receivables from clients	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016
Retail segment	**88,200**	**85,981**	**25,303**	**19,459**
Operating loans	290	278	294	174
Consumer loans	25,670	24,758	13,859	9,597
Consumer finance loans	1,580	1,426	1,222	1,050
Loans to purchase securities	116	108	125	107
Credit card account credit	1,294	1,296	970	221
Housing loans	58,299	56,881	7,969	7,491
Other mortgage loans	837	1,119	813	797
Other receivables	114	115	51	22
Business segment	**78,535**	**76,058**	**19,695**	**15,042**
Operating loans	34,712	33,804	10,838	8,022
Car loans	97	116	132	43
Investment loans	25,378	24,496	7,468	6,169
Purchased receivables (factoring)	3,773	3,506	794	502
Credit card account credit	180	177	-	-
Housing loans	26	26	-	-
Other mortgage loans	8,275	8,391	-	-
Financial leases	4,897	4,774	281	274
Other receivables	1,197	768	182	32
Total loan receivables from clients	**166,735**	**162,039**	**44,998**	**34,501**

Loan receivables from clients – outstanding	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Unimpaired receivables	156,105	149,379	39,930	29,329
Retail segment	82,678	80,686	22,434	17,108
Business segment	73,427	68,693	17,496	12,221
Impaired receivables	1,735	1,576	523	259
Total	**157,840**	**150,955**	**40,453**	**29,588**

Past due receivables	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Unimpaired receivables	5,043	7,352	2,977	3,595
Up to 30 days	3,448	5,168	2,187	2,945
30-60 days	557	596	537	378
Over 60 days	1,038	1,588	253	272
Impaired receivables	3,852	3,732	1,568	1,318
Up to 30 days	370	203	173	110
1 to 3 months	194	176	137	94
3 to 12 months	900	907	522	422
1 to 5 years	1,647	1,772	722	685
Over 5 years	741	674	14	7
Total	**8,895**	**11,084**	**4,545**	**4,913**

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

Debt securities issued by governments other than the Polish government

As at 30 September 2017

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Argentina	USD	62	66	66	-
Brazil	USD	86	87	87	-
Bulgaria	EUR	201	219	222	-
Chile	EUR/USD	20	21	21	-
Croatia	EUR/USD	92	90	91	-
Cyprus	EUR	13	15	15	-
Czech Republic	CZK	62	58	58	-
Dominican Republic	USD	11	12	12	-
Egypt	USD	10	10	10	-
Ecuador	USD	9	9	9	-
Philippines	USD	15	15	15	-
Spain	EUR	46	47	47	-
Indonesia	EUR/USD	149	156	156	-
Ireland	EUR	8	7	8	-
Kazakhstan	USD	9	9	9	-
Columbia	USD	91	93	93	-
Lebanon	USD	13	13	13	-
Lithuania	EUR/USD	408	408	411	-
Latvia	EUR	63	67	67	-
Mexico	EUR/USD/MXN	54	54	54	-
Germany	EUR	476	473	473	-
Oman	USD	11	11	11	-
Panama	USD	12	12	12	-
Peru	USD/PEN	60	63	63	-
South Africa	USD/ZAR	131	129	129	-
Russia	USD	15	15	15	-
Romania	EUR/USD/RON	126	130	132	-
Slovakia	EUR	22	20	20	-
Slovenia	EUR	60	63	63	-
Sri Lanka	USD	26	28	28	-
United States	USD	781	766	766	-
Turkey	EUR/USD/TRY	182	186	186	-

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Ukraine	EUR/USD/UAH	93 [1)]	83 [1)]	84 [1)]	-
Uruguay	USD	10	10	10	-
Hungary	EUR/USD/HUF	184	179	181	-
United Kingdom	GBP	6	5	5	-
Italy	EUR	26	26	26	-
other	USD	39	40	40	-
Total		**3,682**	**3,695**	**3,708**	**-**

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

As at 30 June 2017:

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

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

Balance as at 31 December 2016

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

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

As at 30 September 2016

Issuer's name	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Bulgaria	EUR	230	253	254	-
Croatia	EUR/USD	48	50	52	-
Spain	EUR	273	280	280	-
Lithuania	EUR/USD	456	488	495	-
Latvia	EUR/USD	92	106	107	-
Germany	EUR	135	136	136	-
South Africa	EUR/ZAR	195	190	190	-
Romania	EUR/USD/RON	396	425	427	-
Slovenia	EUR	162	170	170	-
Sri Lanka	USD	42	45	45	-
United States	USD	401	401	401	-
Turkey	EUR/USD/TRY	321	315	315	-
Ukraine	UAH/USD	59 [1)]	55 [1)]	55 [1)]	-
Hungary	EUR/USD/HUF	398	409	411	-
other	EUR/USD/GBP	446	468	468	-
Total		**3,654**	**3,791**	**3,806**	**-**

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

Debt securities issued by corporations and local government units

As at 30 September 2017

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	571	585	588	-
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	1,649	1,656	1,658	5
Companies from the WIG-Fuels Index	505	509	510	1
Mining and quarrying (including companies included in the WIG-Mining index)	645	602	616	54
Manufacturing	1,144	1,147	1,146	5
Transportation and storage	1,852	1,855	1,851	7
Public utility services	578	575	577	2
Privately held domestic banks	20	21	22	-
Foreign banks	78	81	83	1
Domestic local governments	5,873	5,988	6,164	8
National Bank of Poland	1,970	1,970	1,970	-
Other	1,579	1,515	1,520	69
Total	**16,473**	**16,513**	**16,714**	**152**

As at 30 June 2017:

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

Balance as at 31 December 2016

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

As at 30 September 2016

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	1,588	1,604	1,621	-
Companies from the WIG-Fuels Index	1,055	1,071	1,074	-
Companies from the WIG-Chemicals Index	7	7	7	-
Companies from the WIG-Energy Index	315	318	317	-
Privately held domestic banks	20	20	21	-
Mortgage banks	42	44	44	-
Foreign banks	74	77	79	1
Domestic local governments	96	106	111	-
Companies from the WIG-Mining Index	300	257	252	63
Other	425	394	395	18
Total	**3,922**	**3,898**	**3,921**	**82**

9.16.6. Derivatives

Derivatives – assets	**30 September 2017**	**30 June 2017**	**31 December 2016**	**30 September 2016**
Interest rate derivatives	**1,724**	**1,765**	**702**	**691**
Instruments designated as fair value hedging transactions – unlisted instruments, including:	18	15	-	-
- SWAP transactions	18	15	-	-
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	261	214	72	62
- SWAP transactions	261	214	72	62
Instruments recognized as held for trading, including:	1,445	1,536	630	629
Instruments listed on a regulated market, including:	-	-	7	-
- forward contracts	-	-	7	-
Unlisted (OTC) instruments, including:	1,445	1,536	623	629
- forward contracts	1	1	-	11
- SWAP transactions	1,432	1,513	597	598
- call options	7	5	4	16
- put options	3	3	-	-
- other	2	14	22	4
Foreign exchange derivatives	**527**	**467**	**202**	**105**
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	31	69	-	-
- SWAP transactions	31	69	-	-
Instruments recognized as held for trading, including:	496	398	202	105
Instruments listed on a regulated market, including:	18	14	3	-
- forward contracts	18	14	3	-
Unlisted (OTC) instruments, including:	478	384	199	105
- forward contracts	154	157	62	36
- SWAP transactions	290	184	115	58
- call options	22	29	22	11
- put options	12	14	-	-
Derivatives related to equity and commodity prices – carried as held for trading	**167**	**129**	**49**	**18**
Listed instruments, including:	5	1	-	-
- forward contracts	5	-	-	-
- put options	-	1	-	-
Unlisted (OTC) instruments, including:	162	128	49	18
- forward contracts	67	34	-	-
- call options	94	91	48	18
- put options	1	3	1	-
Derivatives – assets, total	**2,418**	**2,361**	**953**	**814**

Derivatives – liabilities	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Interest rate derivatives	**2,599**	**2,908**	**639**	**680**
Instruments designated as fair value hedging transactions – unlisted instruments, including:	185	188	-	-
- SWAP transactions	185	188	-	-
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	937	1,124	6	-
- SWAP transactions	937	1,124	6	-
Instruments recognized as held for trading, including:	1,477	1,596	633	680
Listed instruments, including:	-	7	19	11
- forward contracts	-	7	19	11
Unlisted (OTC) instruments, including:	1,477	1,589	614	669
- forward contracts	1	1	-	10
- SWAP transactions	1,469	1,569	586	638
- call options	2	1	-	-
- put options	3	3	6	17
- other	2	15	22	4
Foreign exchange derivatives	**286**	**496**	**125**	**63**
Instruments designated as cash flow hedging transactions – unlisted instruments, including:	13	3	-	-
- SWAP transactions	13	3	-	-
Instruments recognized as held for trading, including:	273	493	125	63
Unlisted (OTC) instruments, including:	273	493	125	63
- forward contracts	141	195	25	9
- SWAP transactions	99	257	77	43
- call options	9	8	-	-
- put options	24	33	23	11
Derivatives related to equity and commodity prices – carried as held for trading	**127**	**87**	**23**	**-**
Listed instruments, including:	14			-
- forward contracts	14			-
Unlisted (OTC) instruments, including:	113	87	23	-
- forward contracts	57	34	-	-
- call options	13	11	1	-
- put options	43	42	22	-
Derivatives – liabilities, total	**3,012**	**3,491**	**787**	**743**

9.16.7. Information on changes in the economic situation and business conditions materially affecting 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 items 16 and 18.

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

Information on changes to the classification of financial assets is presented in item 9.16.

9.17 Fair value

9.17.1. Description of valuation techniques

9.17.1.1. Debt securities

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

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

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

9.17.1.2. Equity-based financial assets

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

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

9.17.1.3. Derivatives

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

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

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

9.17.1.4. Loan receivables from clients

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

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

9.17.1.5. Financial liabilities

Liabilities under deposits

Due to the fact that deposits are accepted under current operations on a daily basis, hence their terms are similar to the current market terms for identical transactions, and the time to maturity for such loans is short, it is deemed that for liabilities to clients with maturities up to 1 year the fair value does not significantly deviate from the carrying amount.

Liabilities on the issue of own debt securities and subordinated debt

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

9.17.2. Fair value hierarchy

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

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

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.

Assets and liabilities measured at fair value as at 30 September 2017	**Level I**	**Level II**	**Level III**	**Total**
Assets				
Financial instruments available for sale	26,758	7,031	594	34,383
Equity instruments	272	208	144	624
Debt securities	26,486	6,823	450	33,759
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	6,559	644	44	7,247
Equity instruments	1,983	159	18	2,160
Debt securities	4,576	485	26	5,087
Financial instruments measured at fair value through profit or loss – held for trading	5,130	8,108	306	13,544
Equity instruments	603	3,934	-	4,537
Debt securities	4,504	2,174	221	6,899
Derivatives	23	2,000	85	2,108
Hedge derivatives	-	310	-	310
Liabilities				
Derivatives	14	1,820	43	1,877
Hedge derivatives	-	1,135	-	1,135
Liabilities to members of consolidated mutual funds	-	367	-	367
Investment contracts for the client's account and risk (*unit-linked*)	-	323	-	323
Liabilities on borrowed securities (short sale)	1,094	76	-	1,170

Assets and liabilities measured at fair value as at 30 June 2017 (restated)	**Level I**	**Level II**	**Level III**	**Total**
Assets				
Financial instruments available for sale	26,044	5,016	631	31,691
Equity instruments	236	201	134	571
Debt securities	25,808	4,815	497	31,120
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	4,178	643	44	4,865
Equity instruments	2,201	120	18	2,339
Debt securities	1,977	523	26	2,526
Financial instruments measured at fair value through profit or loss – held for trading	5,811	7,261	330	13,402
Equity instruments	548	3,747	-	4,295
Debt securities	5,244	1,548	252	7,044
Derivatives	19	1,966	78	2,063
Hedge derivatives	-	298	-	298
Liabilities				
Derivatives	17	2,121	38	2,176
Hedge derivatives	-	1,315	-	1,315
Liabilities to members of consolidated mutual funds	-	385	-	385
Investment contracts for the client's account and risk (*unit-linked*)	-	323	-	323
Liabilities on borrowed securities (short sale)	803	-	-	803

Assets and liabilities measured at fair value as at 31 December 2016 (restated)	**Level I**	**Level II**	**Level III**	**Total**
Assets				
Financial instruments available for sale	8,113	2,887	652	11,652
Equity instruments	132	264	38	434
Debt securities	7,981	2,623	614	11,218
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	12,555	1,882	42	14,479
Equity instruments	2,837	97	17	2,951
Debt securities	9,718	1,785	25	11,528
Financial instruments measured at fair value through profit or loss – held for trading	1,882	5,333	188	7,403
Equity instruments	745	3,321	-	4,066
Debt securities	1,119	1,202	135	2,456
Derivatives	18	810	53	881
Hedge derivatives	-	72	-	72
Liabilities				
Derivatives	31	724	26	781
Hedge derivatives	-	6	-	6
Liabilities to members of consolidated mutual funds	-	1,544	-	1,544
Investment contracts for the client's account and risk (*unit-linked*)	-	329	-	329
Liabilities on borrowed securities (short sale)	654	-	-	654

Assets and liabilities measured at fair value as at 30 September 2016	**Level I**	**Level II**	**Level III**	**Total**
Assets				
Financial instruments available for sale	7,261	338	682	8,281
Equity instruments	129	256	21	406
Debt securities	7,132	82	661	7,875
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	12,580	2,446	84	15,110
Equity instruments	2,581	79	57	2,717
Debt securities	9,999	2,367	27	12,393
Financial instruments measured at fair value through profit or loss – held for trading	2,148	5,344	160	7,652
Equity instruments	847	3,036	-	3,883
Debt securities	1,296	1,596	125	3,017
Derivatives	5	712	35	752
Hedge derivatives	-	62	-	62
Liabilities				
Derivatives	18	707	18	743
Liabilities to members of consolidated mutual funds	-	1,390	-	1,390
Investment contracts for the client's account and risk (*unit-linked*)	-	335	-	335
Liabilities on borrowed securities (short sale)	606	-	-	606

Fair value of assets and liabilities for which it is only disclosed as at 30 September 2017	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	18,869	37	5,788	24,694
Loans				
Debt securities	1	6,209	7,061	13,271
Loan receivables from clients	-	-	164,224	164,224
Buy-sell-back transactions	-	635	939	1,574
Term deposits in credit institutions	-	965	1,370	2,335
Loans	-	-	3,582	3,582
Liabilities				
Liabilities to banks	-	515	3,890	4,405
Liabilities to clients	-	-	189,417	189,417
Liabilities on the issue of own debt securities	-	2,411	3,897	6,308
Subordinated debt	-	-	3,344	3,344

Fair value of assets and liabilities for which it is only disclosed as at 30 June 2017 (restated)	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	19,881	40	5,758	25,679
Loans				
Debt securities	-	6,048	7,568	13,616
Loan receivables from clients	-	-	159,462	159,462
Buy-sell-back transactions	-	-	2,238	2,238
Term deposits in credit institutions	-	1,154	977	2,131
Loans	-	-	3,690	3,690
Liabilities				
Liabilities to banks	-	788	4,430	5,218
Liabilities to clients	-	-	185,800	185,800
Liabilities on the issue of own debt securities	-	1,351	3,641	4,992
Subordinated debt	-	-	3,273	3,273

Fair value of assets and liabilities for which it is only disclosed as at 31 December 2016 (restated)	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	15,531	15	3,520	19,066
Loans				
Debt securities	1	1	2,467	2,469
Loan receivables from clients	-	-	44,866	44,866
Buy-sell-back transactions	-	-	2,879	2,879
Term deposits in credit institutions	-	583	1,698	2,281
Loans	-	-	1,705	1,705
Liabilities				
Liabilities to banks	-	399	124	523
Liabilities to clients	-	-	51,364	51,364
Liabilities on the issue of own debt securities	-	-	3,761	3,761
Subordinated debt	-	-	1,027	1,027

Fair value of assets and liabilities for which it is only disclosed as at 30 September 2016	Level I	Level II	Level III	Total
Assets				
Financial assets held to maturity	15,804	884	2,842	19,530
Loans				
Debt securities	-	2	2,779	2,781
Loan receivables from clients	-	-	34,007	34,007
Buy-sell-back transactions			1,261	1,261
Term deposits in credit institutions	-	15	3,580	3,595
Loans	-	-	1,635	1,635
Liabilities				
Liabilities to banks	-	219	132	351
Liabilities to clients	-	-	37,289	37,289
Liabilities on the issue of own debt securities	-	-	3,667	3,667
Subordinated debt	-	-	1,027	1,027

9.17.3. Shifts between different levels of the fair value hierarchy

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

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

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

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

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

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

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

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

In the 9-month period ended 30 September 2017, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

9.18 Receivables

Receivables – carrying amount	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016 (restated)
Receivables on direct insurance, including:	2,277	2,461	2,233	2,003
- receivables from policyholders	2,125	2,209	1,996	1,814
- receivables from insurance intermediaries	111	106	213	165
- other receivables	41	146	24	24
Reinsurance receivables	74	88	76	65
Other receivables	7,457	7,672	3,355	4,564
- receivables from transactions on securities and security deposits [1)]	5,452	6,057	2,413	4,040
- receivables on account of payment card settlements	583	454	202	83
- trade receivables	256	212	148	183
Receivables from the state budget, other than corporate income tax receivables	199	173	55	43
- receivables from debt factoring	188	-	-	-
- prevention settlements	46	44	47	39
- receivables from direct claims handling on behalf of other insurance undertakings	32	29	40	45
- disputed settlements	24	29	-	-
- receivables for acting as an emergency adjuster	12	11	11	11
- receivables on account of Corporate Income Tax	61	36	16	17
- receivables from settlement of the acquisition of Bank BPH’s Core Business	94	94	94	-
receivables on account of contributed deposits and guarantees	92	91	12	13
- other	418	442	317	90
Total receivables	**9,808**	**10,221**	**5,664**	**6,632**

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

As at 30 September 2017, 30 June 2017, 31 December 2016 and 30 September 2016, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment charges.

9.19 Impairment of financial assets and receivables

Movement in impairment charges for financial asset in the period of 1 January - 30 September 2017	Balance at the beginning of the period	Recognition through profit or loss	Reversal through profit or loss	Derecognition (sale, write-down etc.)	Change in the composition of the Group	Other changes	Balance at the end of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	-	-	1
Available for sale financial assets	**54**	**-**	**-**	**-**	**-**	**-**	**54**
Equity instruments	47	-	-	-	-	-	47
Debt securities	7	-	-	-	-	-	7
Loans	**3,124**	**2,916**	**(2,086)**	**(534)**	**5,788**	**87**	**9,295**
Debt securities	71	4	(9)	(26)	104	-	144
Loan receivables from clients	3,037	2,912	(2,077)	(493)	5,667	87	9,133
Term deposits in credit institutions	1	-	-	-	17	-	18
Loans	15	-	-	(15)	-	-	-
Receivables	**591**	**126**	**(72)**	**(4)**	**-**	**-**	**641**
Receivables on direct insurance	562	120	(68)	(2)	-	-	612
Reinsurance receivables	8	5	(3)	(2)	-	-	8
Other receivables	21	1	(1)	-	-	-	21
Reinsurers' share in technical provisions	**9**	**8**	**(5)**	**-**	**-**	**-**	**12**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Total	**3,780**	**3,050**	**(2,163)**	**(538)**	**5,788**	**87**	**10,004**

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

Movement in impairment charges for financial asset in the period of 1 January - 30 September 2016	**Balance at the beginning of the period**	**Recognition through profit or loss**	**Reversal through profit or loss**	**Derecognition (sale, write-down etc.)**	**Change in the composition of the Group**	**Balance at the end of the period**
Financial assets held to maturity	**1**	**-**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	-	1
Available for sale financial assets	**46**	**7**	**-**	**-**	**-**	**53**
Equity instruments	46	-	-	-	-	46
Debt securities	-	7	-	-	-	7
Loans	**2,015**	**1,325**	**(778)**	**(58)**	**33**	**2,537**
Debt securities	43	23	-	(2)	-	64
Loan receivables from clients	1,938	1,302	(778)	(37)	33	2,458
Term deposits in credit institutions	1	-	-	-	-	1
Loans	33	-	-	(19)	-	14
Receivables	**588**	**78**	**(32)**	**(3)**	**-**	**631**
Receivables on direct insurance	562	74	(29)	(3)	-	604
Reinsurance receivables	6	2	(2)	-	-	6
Other receivables	20	2	(1)	-	-	21
Reinsurers' share in technical provisions	**11**	**24**	**(8)**	**-**	**-**	**27**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**	**1**
Total	**2,662**	**1,434**	**(818)**	**(61)**	**33**	**3,250**

9.20 Assets held for sale

Assets held for sale before reclassification	**30 September 2017**	**30 June 2017**	**31 December 2016**	**30 September 2016**
Groups held for sale	**1,071**	**1,059**	**1,027**	**-**
Assets	1,094	1,091	1,060	-
Investment properties	922	922	1,002	-
Financial assets	-	5	-	-
Receivables	86	80	12	-
Deferred tax assets	7	7	2	-
Cash and cash equivalents	75	71	42	-
Other assets	4	6	2	-
Liabilities related directly to assets classified as held for sale	23	32	33	-
Deferred tax liability	7	6	15	-
Other liabilities	16	26	18	-
Other assets held for sale	**146**	**148**	**129**	**914**
Property, plant and equipment	85	89	39	39
Investment properties	61	59	90	875
Assets and groups of assets held for sale	**1,240**	**1,239**	**1,189**	**914**
Liabilities related directly to assets classified as held for sale	**23**	**32**	**33**	**-**

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

9.21 Technical provisions

Technical provisions	30 September 2017			30 June 2017			31 December 2016			30 September 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**21,653**	**(1,035)**	**20,618**	**21,601**	**(1,126)**	**20,475**	**20,388**	**(990)**	**19,398**	**19,830**	**(931)**	**18,899**
Provision for unearned premiums	7,666	(309)	7,357	7,963	(446)	7,517	6,957	(377)	6,580	6,349	(271)	6,078
Provision for unexpired risk	10	-	10	10	-	10	26	-	26	72	-	72
Provision for outstanding claims	8,226	(533)	7,693	7,927	(480)	7,447	7,730	(421)	7,309	7,733	(477)	7,256
- for reported claims	3,153	(497)	2,656	2,940	(441)	2,499	2,992	(371)	2,621	3,031	(430)	2,601
- for claims incurred but not reported *(IBNR)*	3,257	(24)	3,233	3,169	(25)	3,144	2,979	(29)	2,950	2,950	(25)	2,925
- for claims handling costs	1,816	(12)	1,804	1,818	(14)	1,804	1,759	(21)	1,738	1,752	(22)	1,730
Provision for capitalized value of annuities	5,741	(186)	5,555	5,680	(183)	5,497	5,673	(192)	5,481	5,675	(183)	5,492
Provisions for bonuses and discounts for insureds	10	(7)	3	21	(17)	4	2	-	2	1	-	1
Technical provisions in life insurance	**22,410**	**-**	**22,410**	**22,184**	**-**	**22,184**	**21,806**	**-**	**21,806**	**22,043**	**-**	**22,043**
Provision for unearned premiums	93	-	93	94	-	94	93	-	93	90	-	90
Provision for life insurance	16,015	-	16,015	15,969	-	15,969	15,928	-	15,928	16,179	-	16,179
Provision for outstanding claims	540	-	540	544	-	544	542	-	542	574	-	574
- for reported claims	148	-	148	152	-	152	156	-	156	141	-	141
- for claims incurred but not reported *(IBNR)*	386	-	386	386	-	386	380	-	380	427	-	427
- for claims handling costs	6	-	6	6	-	6	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	4	-	4	3	-	3	3	-	3	1	-	1
Other technical provisions	296	-	296	303	-	303	323	-	323	358	-	358
Technical provisions for life insurance if the policyholder bears the investment risk	5,462	-	5,462	5,271	-	5,271	4,917	-	4,917	4,841	-	4,841
Technical provisions, total	**44,063**	**(1,035)**	**43,028**	**43,785**	**(1,126)**	**42,659**	**42,194**	**(990)**	**41,204**	**41,873**	**(931)**	**40,942**

9.22 Other provisions

Movement in other provisions in the period 1 January - 30 September 2017	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combina-tions	Other chan-ges	Balance at the end of the period
Provisions for restructuring expenses	252	61	(169)	(28)	-	-	116
Provision for disputed claims and potential liabilities	11	4	(4)	(2)	9	2	20
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	58	-	-	(1)	-	-	57
Provision for guarantees and sureties extended	18	53	-	(34)	215	-	252
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	-	-	9
Other	13	16	(1)	(3)	24	(1)	48
Other provisions, total	**367**	**134**	**(174)**	**(68)**	**248**	**1**	**508**

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

Movement in other provisions in the period 1 January - 30 September 2016	Balance at the beginning of the period	Increase	Utilization	Reversal	Balance at the end of the period
Provisions for restructuring expenses	3	-	(2)	-	1
Provision for disputed claims and potential liabilities	4	1	-	-	5
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	58	-	-	-	58
Provision for guarantees and sureties extended	5	10	-	(8)	7
Provision for the costs of closing the Graphtalk project	6	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	9
Other	23	7	(5)	(8)	17
Other provisions, total	**108**	**18**	**(7)**	**(16)**	**103**

[1] The most important item included in the amount has been explained in item 23.2.

9.23 Financial liabilities

Financial liabilities	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Financial liabilities carried at fair value	**4,872**	**5,002**	**3,314**	**3,074**
Derivatives held for trading	1,877	2,176	781	743
Cash flow hedge derivatives	950	1,127	6	-
Fair value hedge derivatives	185	188	-	-
Liabilities on borrowed securities (short sale)	1,170	803	654	606
Investment contracts for the client's account and risk (*unit-linked*)	323	323	329	335
Liabilities to members of consolidated mutual funds	367	385	1,544	1,390
Financial liabilities measured at amortized cost	**204,952**	**199,289**	**56,716**	**44,030**
Liabilities to banks	4,378	4,990	523	350
Current deposits	737	685	32	-
Overnight deposits	19	336	1	-
Term deposits	-	365	-	73
Bank securities	-	-	20	20
Loans received	3,349	3,412	305	132
Other liabilities	273	192	165	125
Liabilities to clients	189,083	185,376	51,241	37,287
Current deposits	109,779	105,929	25,791	15,311
Term deposits	75,522	75,963	22,160	19,111
Bank securities	2,912	2,698	2,769	2,566
Other liabilities	870	786	521	299
Liabilities on the issue of own debt securities	6,265	4,859	3,680	3,573
Subordinated debt	3,297	3,267	1,027	1,027
Liabilities under sell-buy-back transactions	1,911	752	178	1,711
Finance lease liabilities	12	11	-	-
Investment contracts with guaranteed and fixed terms and conditions	6	34	67	82
Total financial liabilities	**209,824**	**204,291**	**60,030**	**47,104**

9.23.1. Subordinated debt

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

Additional information on the PZU's subordinated bond issue is presented in item 19.

Subordinated debt, carrying amount	30 September 2017	30 June 2017	31 December 2016	30 September 2016
PZU's subordinated bonds	2,264	2,244	-	-
Subordinated debt of Alior Bank	1,033	1,023	1,027	1,027
Subordinated loan	43	42	44	43
Series F bonds	222	225	225	222
Series G bonds	198	196	196	193
Series I bonds	116	114	114	116
Series I1 bonds	34	33	33	34
Meritum Bank series B bonds	69	68	68	69
Meritum Bank series C bonds	82	80	80	81
Series EUR001 bonds	45	43	45	44
Series P1A bonds	153	151	151	153
Series P1B bonds	71	71	71	72
Subordinated debt	**3,297**	**3,267**	**1,027**	**1,027**

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

9.23.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 September 2017	30 June 2017	31 December 2016	30 September 2016
PZU Finance AB (publ.) bonds	3,579	3,544	3,680	3,573
Alior Bank series J bonds	250	-	-	-
Certificates of deposit	1,114	86	-	-
Covered bonds	1,322	1,229	-	-
Liabilities on the issue of own debt securities	**6,265**	**4,859**	**3,680**	**3,573**

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

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

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

9.24 Other liabilities

Other liabilities	30 September 2017	30 June 2017 (restated)	31 December 2016 (restated)	30 September 2016 (restated)
Accrued expenses	**1,268**	**1,250**	**1,182**	**862**
Accrued expenses of agency commissions	325	318	301	270
Accrued sales commission expenses in group insurance	5	8	10	8
Accrued payroll expenses	138	130	170	137
Accrued reinsurance expenses	237	308	432	280
Accrued employee bonuses	334	195	149	49
Other	229	291	120	118
Deferred revenue	**269**	**274**	**152**	**140**
Other liabilities	**7,208**	**9,267**	**3,657**	**5,851**
Liabilities for transactions on financial instruments	1,671	1,926	932	2,260
Liabilities to minority shareholders in subsidiaries for dividends	-	1,822	-	-
Liabilities to PZU shareholders for dividends	1,212	1,213	3	1,799
Liabilities to banks on account of payment documents settled in interbank settlement systems	1,344	977	593	229
Liabilities on direct insurance	815	800	849	791
Liabilities on account of payment card settlements	447	568	65	-
Regulatory settlements:	196	259	67	66
Liabilities on account of contributions to BFG	74	214	10	-
Reinsurance liabilities	121	211	133	99
Estimated non-insurance liabilities	60	161	119	83
Liabilities to employees	141	157	165	7
Estimate fee refunds in connection with withdrawals or terminations, by banks' clients, of insurance policies concluded at the sale of credit products	140	151	71	85
Trade payables	176	141	91	98
Current income tax liabilities	277	133	225	75
Liabilities to the state budget other than for income tax	101	59	56	58
Liabilities on account of donations	28	28	34	-
Liabilities on account of leases concluded not on an arm's length basis	18	22	32	22
Alior Bank's liabilities on account of insurance of bank products offered to the bank's clients	16	22	23	35
Insurance Indemnity Fund	16	16	16	15
Liabilities on account of direct claims handling	13	13	13	12
Other	342	374	160	117
Other liabilities, total	**8,745**	**10,791**	**4,991**	**6,853**

10. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Contingent assets	6	6	40	45
- guarantees and sureties received	6	6	40	45
Contingent liabilities	59,175	58,518	16,364	11,526
- on account of financing	44,546	44,956	12,979	8,960
- guarantees and sureties given	7,223	7,038	1,514	1,292
- disputed insurance claims	611	774	429	506
- other disputed claims	213	207	195	213
- other, including:	6,582	5,543	1,247	555
- underwriting of securities issues	3,619	3,458	-	
letters of credit and commitment letters	926	949	-	
- liabilities for tranches of loans not used by borrowers up to the balance sheet date	159	213	1,195	497
- potential liabilities under loan agreements concluded by the Armatura Group	23	30	27	29

11. Commentary to the condensed interim consolidated financial statements

In the period of 9 months ended 30 September 2017, gross written premium was PLN 16,933 million compared to PLN 14,706 million in the corresponding period of the previous year (+15.1%). The increase in sales applied above all to the following:

- motor insurance in the mass client segment (PLN +1,087 million) mainly due to the higher average premium and an increase in the number of insurance policies;
- motor insurance in the corporate client segment (+ PLN 300 million) due to the higher average premium and number of insurance policies against fire and other damage to property (+ PLN 77 million) following the execution of several contracts with high unit values;
- premium in the individual insurance segment (+ PLN 346 million) driven mainly by higher sales of unit-linked products in the bancassurance channel;
- growth of sales in the foreign companies (+ PLN 173 million), including mainly motor insurance in the Baltic states segment;
- growth of the portfolio of group health products, including in particular high sales of new contracts.

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) in 3 quarters of 2017 and 3 quarters of 2016 were PLN 5,833 million and PLN 2,635 million, respectively. An increase was observed in the investment income earned on the banking activity following the commencement of consolidation of Pekao SA, but also a higher net result on investing activity excluding banking activity.

Investment income excluding banking activity increased primarily in effect of a higher result earned on listed equity instruments, in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index was up 24.2% in 3Q 2017 compared to 1.3% in the corresponding period of the previous year, including the higher valuation of the stake held in the Azoty Group in the long-term asset portfolio.

Net claims and benefits (including the movement in technical provisions) reached PLN 11,252 million and were 15.2% more than in the corresponding period of the previous year. The following factors contributed to the increase in the category of net claims and benefits:

- higher claims and benefits in motor insurance in the corporate and mass client segments as a result of the development of the insurance portfolio;

- the higher level of the loss ratio in insurance for losses caused by calamities in the mass client and corporate client segments due to the occurrence of an above-average number of claims resulting from weather phenomena (hurricanes, hail storms). Higher level of claims in the corporate client segment in general TPL insurance and fire insurance after several claims with high unit value were reported.
- in life insurance – higher amounts paid by clients to their accounts and significantly improved results of investing activity in the period under analysis for individual unit-linked products in the bancassurance channel and to a lesser extent the same type of group and individual products offered within PZU's own network (mostly Employee Pension Plans and IRAs);
- in protection insurance – an increase in Q1 2017 in the incidence of deaths compared to last year, confirmed by statistics published by the Central Statistical Office [GUS] for the entire population. In Q2 and Q3, the loss ratios returned to the levels observed in the corresponding period of last year.

On the other hand, the decline in this category of net claims and benefits was caused by the lower level of claims in the group of insurance for other losses to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by the forces of nature.

In 3Q 2017, acquisition expenses rose by PLN 227 million compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass client and corporate client segments.

PZU Group's administrative expenses in 3Q 2017 were PLN 3,644 million compared to PLN 1,927 million in the corresponding period of 2016, i.e. they were up 89.1% over the previous year. This growth was chiefly driven by the commencement of Pekao consolidation in June 2017 and the Alior Bank merger with the spun-off portion of Bank BPH. Administrative expenses of the banking segment rose by PLN 1,661 million y/y. At the same time, the administrative expenses of the insurance segments in Poland were lower by PLN 9 million compared to the corresponding period of the previous year. The change resulted from the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements, offset by lower expenses of project activity.

In the 3 quarters of 2017, the balance of other operating income and expenses was negative and stood at PLN 1,006 million, compared to the balance in 2016, which was also negative at the level of PLN 736 million. This change was caused mainly by the higher level of levy on financial institutions. The total burden incurred by the PZU Group on account of this tax (in insurance and banking activity) in 3Q 2017 was PLN 554 million, as compared to PLN 279 million in the corresponding period of 2016 (as a result of the commencement of consolidating Pekao SA and the introduction of the tax since February 2016).

Interest expenses after 3Q 2017 amounted to PLN 884 million and were PLN 378 million higher than in the corresponding period of the previous year. The increase concerned mainly interest on term and current deposits in banking activity.

The operating profit after 3Q 2017 was PLN 3,896 million, up by PLN 1,936 million (+98.8%) compared to the result for the corresponding period of the previous year. This movement resulted in particular from:

- a higher result in the banking segment due to the commencement of Pekao consolidation (PLN +918 million) and an improved result of Alior Bank (PLN +187 million) in connection with the high sales level of credit products supported by good business climate;
- an increase in profitability in the mass insurance segment as compared to the corresponding period of 2016 (+ PLN 559 million) – lower loss ratio in agricultural insurance as a result of the occurrence of a non-recurring event in the corresponding period of the previous year, i.e. numerous losses caused by forces of nature (adverse effects of ground frost);
- higher investment income on equity portfolios caused by better market conditions on the Warsaw Stock Exchange, including a higher valuation of the stake held in the Azoty Group;
- decrease in profitability in group and individually continued insurance (PLN -15 million) as a result of higher loss ratio of protection products in Q1 2017 driven by the increase of the frequency of events associated with deaths, confirmed by GUS mortality data on the whole population. In Q2 and Q3, the loss ratios returned to the levels observed in the corresponding period of last year;

- lower profitability in the segment of corporate insurance (PLN -27 million), as a result of losses caused by natural catastrophes (several high unit value claims reported, including instances of damage caused by hurricanes) and in the motor own damage insurance portfolio (higher average claim payment).

Net profit grew in comparison to 3Q 2016 nearly twice, by PLN 1,495 million (+99.1%) to PLN 3,003 million. Net profit attributable to the parent company's shareholders was PLN 2,146 million compared to PLN 1,309 million in 2016 (up 63.9%).

As at 30 September 2017, consolidated equity according to IFRS was PLN 35,930 million compared to PLN 16,268 million as at 30 September 2016. The growth in consolidated equity pertained to non-controlling interests that reached to PLN 22,025 million, mostly in connection with the commencement of Pekao consolidation in H1 2017. The return on equity (ROE[2]) of the parent company for the period from 1 January 2017 to 30 September 2017 was 21.3% making it 7.5 p.p. higher than in the corresponding period of the previous year. In comparison with the consolidated equity as at 31 December 2016, equity increased by PLN 18,846 million. The change in consolidated equity was connected mainly with the commenced consolidation of Pekao. Equity attributable to the parent company's shareholders rose by PLN 907 million compared to the end of the previous year – as an effect of the distribution of profit for 2016, including allocation of PLN 1,209 million as a dividend, offset by the net result attributable to the parent company generated in 3Q 2017.

Total equity and liabilities as at 30 September 2017 increased compared to 31 December 2016 by PLN 174,949 million to PLN 300,245 million. An increase in the balance of liabilities by PLN 156,103 million was mostly connected with the commencement of Pekao consolidation and concerned in particular liabilities to clients under deposits.

The investment portfolio[3] as at 30 September 2017 and 31 December 2016 was PLN 96,129 million and PLN 62,153 million, respectively. The increase by PLN 33,976 million was mostly connected with the commencement of Pekao consolidation. Excluding banking activity, the investment portfolio was at a level of PLN 47,482 million and was lower by PLN 3,006 million against the balance at the end of 2016 in connection with the acquisition of Pekao (offset by the subordinated bond issue in the amount of PLN 2.25 billion). Loan receivables as at 30 September 2017 were PLN 166,735 million compared to PLN 44,998 million as at 31 December 2016.

The value of technical provisions as at the end of Q3 2017 was PLN 44,063 million and accounted for 14.7% of total equity and liabilities. In comparison with 31 December 2016, provisions surged up by PLN 1,869 million. This movement was mainly the result of the following:

- higher provision for unearned premium in non-life insurance and resulting mainly from increased sales of motor insurance in Poland;
- higher provisions for unit-linked life insurance products if the policyholder bears the investment risk because of sales exceeding surrenders and a high positive investment result;
- higher mathematical reserves in continued business associated with the indexation of sums insured and the higher average age of the insured.

12. Capital management

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

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

[2] Annualized ratio.

[3] The investment portfolio contains financial assets, excluding credit receivables, investment properties (including the part presented in the assets held for sale category) and the negative measurement of derivatives as well as liabilities due to sell-buy-back transactions.

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

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

The capital management policy rests on the following principles:

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

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below;

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

External capital requirements

According to the Insurance Activity Act implementing Solvency II into Polish legal regime, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. Assets, liabilities and as a consequence own funds covering the capital requirement are measured at fair value.

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

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

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 the chief operating decision maker (in practice this is the PZU Management Board), related to allocating resources and assessing operating results.

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Baltic States	IFRS	Non-life insurance and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

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

13.4 Accounting standards employed according to PAS

13.4.1. PZU

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

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

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. Detailed information on this issue is presented in the consolidated financial statements.

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

13.5 Simplifications in the segmental note

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

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

13.6 Information on key customers

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

13.7 Quantitative data

Corporate insurance (non-life insurance)	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	512	1,891	477	1,443
Gross premium written between segments	1	3	(44)	20
Gross written premiums	**513**	**1,894**	**433**	**1,463**
Movement in provision for unearned premiums and gross provision for unexpired risks	104	(143)	72	(48)
Gross earned premium	**617**	**1,751**	**505**	**1,415**
Reinsurers' share in the gross written premium	6	(244)	(56)	(161)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(105)	(22)	(17)	(30)
Net earned premium	**518**	**1,485**	**432**	**1,224**
Investment income, including:	30	70	17	81
external operations	30	70	17	81
intersegment operations	-	-	-	-
Other net technical income	19	55	14	41
Income	**567**	**1,610**	**463**	**1,346**
Net insurance claims and benefits	(406)	(978)	(336)	(775)
Acquisition expenses	(108)	(312)	(91)	(259)
Administrative expenses	(32)	(96)	(30)	(85)
Reinsurance commissions and profit-sharing	6	19	6	14
Other	(21)	(70)	(14)	(41)
Insurance result	**6**	**173**	**(2)**	**200**

Mass insurance (non-life insurance)	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	2,289	7,506	2,035	6,312
Gross premium written between segments	1	2	(1)	27
Gross written premiums	**2,290**	**7,508**	**2,034**	**6,339**
Movement in provision for unearned premiums and gross provision for unexpired risks	237	(419)	87	(548)
Gross earned premium	**2,527**	**7,089**	**2,121**	**5,791**
Reinsurers' share in the gross written premium	6	(18)	(2)	(10)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(23)	(45)	(19)	(39)
Net earned premium	**2,510**	**7,026**	**2,100**	**5,742**
Investment income, including:	142	370	111	386
external operations	142	370	111	386
intersegment operations	-	-	-	-
Other net technical income	37	125	6	39
Income	**2,689**	**7,521**	**2,217**	**6,167**
Net insurance claims and benefits	(1,796)	(4,586)	(1,533)	(3,975)
Acquisition expenses	(438)	(1,285)	(387)	(1,123)
Administrative expenses	(142)	(422)	(148)	(442)
Reinsurance commissions and profit-sharing	(5)	(5)	(6)	(9)
Other	(81)	(272)	(58)	(226)
Insurance result	**227**	**951**	**85**	**392**

Group and individually continued insurance (life insurance)	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	1,716	5,145	1,688	5,078
Gross premium written between segments	-	-	-	-
Gross written premiums	**1,716**	**5,145**	**1,688**	**5,078**
Movement in the provision for unearned premiums	-	(3)	1	1
Gross earned premium	**1,716**	**5,142**	**1,689**	**5,079**
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,716**	**5,142**	**1,689**	**5,079**
Investment income, including:	182	575	210	501
external operations	182	575	210	501
intersegment operations	-	-	-	-
Other net technical income	-	1	1	1
Income	**1,898**	**5,718**	**1,900**	**5,581**
Net insurance claims and benefits and movement in other net technical provisions	(1,215)	(3,863)	(1,247)	(3,710)
Acquisition expenses	(81)	(248)	(79)	(246)
Administrative expenses	(134)	(426)	(139)	(425)
Other	(19)	(50)	(16)	(54)
Insurance result	**449**	**1,131**	**419**	**1,146**

Individual insurance (life insurance)	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	404	1,196	312	850
Gross premium written between segments	-	-	-	-
Gross written premiums	**404**	**1,196**	**312**	**850**
Movement in the provision for unearned premiums	1	2	1	3
Gross earned premium	**405**	**1,198**	**313**	**853**
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**405**	**1,198**	**313**	**853**
Investment income, including:	118	369	126	204
external operations	118	369	126	204
intersegment operations	-	-	-	-
Income	**523**	**1,567**	**439**	**1,057**
Net insurance claims and benefits and movement in other net technical provisions	(426)	(1,276)	(344)	(765)
Acquisition expenses	(36)	(103)	(29)	(78)
Administrative expenses	(12)	(42)	(13)	(43)
Other	-	(2)	(1)	(6)
Insurance result	**49**	**144**	**52**	**165**

Investments	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Investment income, including:	205	1,889	45	603
- external operations	182	308	31	(370)
- intersegment operations	23	1,581	14	973
Operating result	**205**	**1,889**	**45**	**603**

Banking activity	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Fees and commission income	760	1,357	138	417
Investment income, including:	2,215	4,083	519	1,491
- external operations	2,215	4,083	519	1,491
- intersegment operations	-	-	-	-
Income	**2,975**	**5,440**	**657**	**1,908**
Fees and commission expenses	(160)	(354)	(52)	(164)
Interest expenses	(423)	(814)	(144)	(444)
Administrative expenses	(1,243)	(2,470)	(282)	(809)
Other	(194)	(362)	(61)	(156)
Operating result	**955**	**1,440**	**118**	**335**

Pension insurance	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Investment income, including:	1	4	2	4
external operations	1	4	2	4
intersegment operations	-	-	-	-
Other income	30	91	25	81
Income	**31**	**95**	**27**	**85**
Administrative expenses	(11)	(35)	(12)	(29)
Other	-	(1)	(1)	(1)
Operating result	**20**	**59**	**14**	**55**

Insurance - Baltic States	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	355	1,028	283	868
Gross premium written between segments	-	-	-	-
Gross written premiums	**355**	**1,028**	**283**	**868**
Movement in provision for unearned premiums and gross provision for unexpired risks	(17)	(89)	7	(33)
Gross earned premium	**338**	**939**	**290**	**835**
Reinsurers' share in the gross written premium	(8)	(30)	(5)	(23)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(4)	1	(3)	1
Net earned premium	**326**	**910**	**282**	**813**
Investment income, including:	6	15	8	17
external operations	6	15	8	17
intersegment operations	-	-	-	-
Income	**332**	**925**	**290**	**830**
Net insurance claims and benefits	(200)	(566)	(182)	(514)
Acquisition expenses	(71)	(201)	(65)	(186)
Administrative expenses	(28)	(83)	(21)	(82)
Other	1	1	-	(1)
Insurance result	**34**	**76**	**22**	**47**

Insurance - Ukraine	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross premium written externally	53	168	49	155
Gross premium written between segments	-	-	-	-
Gross written premiums	**53**	**168**	**49**	**155**
Movement in provision for unearned premiums and gross provision for unexpired risks	-	(14)	2	(15)
Gross earned premium	**53**	**154**	**51**	**140**
Reinsurers' share in the gross written premium	(16)	(67)	(21)	(69)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(5)	4	(2)	7
Net earned premium	**32**	**91**	**28**	**78**
Investment income, including:	5	12	6	17
external operations	5	12	6	17
intersegment operations	-	-	-	-
Income	**37**	**103**	**34**	**95**
Net insurance claims and benefits	(15)	(41)	(12)	(37)
Acquisition expenses	(18)	(50)	(16)	(43)
Administrative expenses	(5)	(17)	(6)	(16)
Other	5	16	6	16
Insurance result	**4**	**11**	**6**	**15**

Investment contracts	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Gross written premium	9	30	8	69
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**9**	**30**	**8**	**69**
Reinsurers' share in the gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	**9**	**30**	**8**	**69**
Investment income, including:	6	27	11	13
external operations	6	27	11	13
intersegment operations	-	-	-	-
Income	**15**	**57**	**19**	**82**
Net insurance claims and benefits and movement in other net technical provisions	(9)	(47)	(15)	(71)
Acquisition expenses	-	(1)	(1)	(3)
Administrative expenses	(3)	(6)	(2)	(7)
Operating result	**3**	**3**	**1**	**1**

Other segments	**1 July - 30 September 2017**	**1 January – 30 September 2017**	**1 July - 30 September 2016**	**1 January – 30 September 2016**
Investment income, including:	1	5	1	3
- external operations	1	5	1	3
- intersegment operations	-	-	-	-
Other income	238	692	213	579
Income	**239**	**697**	**214**	**582**
Costs	(258)	(742)	(220)	(595)
Other	3	26	4	11
Operating result	**(16)**	**(19)**	**(2)**	**(2)**

Reconciliations 1 January 2017 – 30 September 2017	**Net earned premium**	**Investment income [2)]**	**Net insurance claims and benefits**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	1,485	70	(978)	(312)	(96)	173
Mass insurance	7,026	370	(4,586)	(1,285)	(422)	951
Group and individually continued insurance	5,142	575	(3,863)	(248)	(426)	1,131
Individual insurance	1,198	369	(1,276)	(103)	(42)	144
Investments	-	1,889	-	-	-	1,889
Banking activity	-	4,083	-	-	(2,470)	1,440
Pension insurance	-	4	-	(1)	(35)	59
Insurance - Baltic States	910	15	(566)	(201)	(83)	76
Insurance - Ukraine	91	12	(41)	(50)	(17)	11
Investment contracts	30	27	(47)	(1)	(6)	3
Other segments	-	5	-	-	-	(19)
Total segments	**15,882**	**7,419**	**(11,357)**	**(2,201)**	**(3,597)**	**5,858**
Presentation of investment contracts	(30)	(21)	47	-	-	-
Estimated salvage and subrogation	-	-	(2)	-	-	(2)
Valuation of equity instruments	-	17	-	-	-	17
Valuation of properties	-	(5)	-	-	-	(7)
Elimination of the loss ratio equalization provision and prevention fund						
Charges to the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	(20)	(20)
Consolidation adjustments [1)]	(3)	(1,577)	60	59	(27)	(1,950)
Consolidated data	**15,849**	**5,833**	**(11,252)**	**(2,142)**	**(3,644)**	**3,896**

[1)] Consolidated adjustments follow primarily from the dividends paid between individual segments and from different accounting standards in which individual reportable segments (PAS and IFRS) and consolidated data (IFRS) are reported.
[2)] The sum of the following line items in the consolidated statement of profit or loss: "Net investment income", "Net realized result and impairment charges on investments" and "Net movement in the fair value of assets and liabilities measured at fair value".

Reconciliations 1 January 2016 – 30 September 2016	Net earned premium	Investment income [2]	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,224	81	(775)	(259)	(85)	200
Mass insurance	5,742	386	(3,975)	(1,123)	(442)	392
Group and individually continued insurance	5,079	501	(3,710)	(246)	(425)	1,146
Individual insurance	853	204	(765)	(78)	(43)	165
Investments	-	603	-	-	-	603
Banking activity	-	1,491	-	-	(809)	335
Pension insurance	-	4	-	(3)	(29)	55
Insurance - Baltic States	813	17	(514)	(186)	(82)	47
Insurance - Ukraine	78	17	(37)	(43)	(16)	15
Investment contracts	69	13	(71)	(3)	(7)	1
Other segments	-	3	-	-	-	(2)
Total segments	**13,858**	**3,320**	**(9,847)**	**(1,941)**	**(1,938)**	**2,957**
Presentation of investment contracts	(69)	(5)	71	-	-	-
Valuation of equity instruments	-	60	-	-	-	60
Valuation of properties	-	(26)	-	-	1	(26)
Elimination of the loss ratio equalization provision and prevention fund	-	-		-	-	(10)
Charges to the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	(15)	(15)
Consolidation adjustments [1]	(5)	(714)	5	26	25	(1,006)
Consolidated data	**13,784**	**2,635**	**(9,771)**	**(1,915)**	**(1,927)**	**1,960**

[1] Consolidated adjustments follow primarily from the dividends paid between individual segments and from different accounting standards in which individual reportable segments (PAS and IFRS) and consolidated data (IFRS) are reported.
[2] The sum of the following line items in the consolidated statement of profit or loss: "Net investment income", "Net realized result and impairment charges on investments" and "Net movement in the fair value of assets and liabilities measured at fair value".

Geographic breakdown 1 January - 30 September 2017 and as at 30 September 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	15,737	1,028	168	-	16,933
Gross written premium - cross-segment	-	-	-	-	-
Fees and commission income	1,512	-	-	-	1,512
Net investment income	6,127	11	12	-	6,150
Net result on the realization of investments and impairment charges	(662)	(1)	-	-	(663)
Net movement in the fair value of assets and liabilities measured at fair value	341	5	-	-	346
Non-current assets other than financial instruments [1]	4,502	252	4	-	4,758
Deferred tax assets	1,538	-	2	-	1,540
Assets	299,143	2,176	269	(1,343)	300,245

[1] applies to intangible assets and property, plant and equipment

Geographic breakdown 31 December 2016 (restated)	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Non-current assets other than financial instruments [1]	2,650	276	4	-	2,930
Deferred tax assets	631	-	2	-	633
Assets	124,461	2,021	262	(1,448)	125,296

[1] applies to intangible assets and property, plant and equipment

Geographic breakdown 1 January - 30 September 2016 and as at 30 September 2016 (restated)	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	13,683	868	155	-	14,706
Gross written premium - cross-segment	28	-	-	(28)	-
Fees and commission income	582	-	-	-	582
Net investment income	2,997	10	17	-	3,024
Net result on the realization of investments and impairment charges	(444)	-	-	-	(444)
Net movement in the fair value of assets and liabilities measured at fair value	48	7	-	-	55
Non-current assets other than financial instruments [1]	2,245	278	4	-	2,527
Deferred tax assets	480	-	2	-	482
Assets	112,085	1,917	241	(1,329)	112,914

[1] applies to intangible assets and property, plant and equipment

14. Commentary to segment reporting and investing activity

14.1 Corporate insurance – non-life insurance

Gross written premium by product group	1 January – 30 September 2017	1 January – 30 September 2016	% change
Motor TPL insurance	518	345	50.1%
MOD insurance	632	505	25.1%
Total motor insurance	1,150	850	35.3%
Insurance against fire and other damage to property	388	311	24.8%
Other TPL insurance (classes 11, 12, 13)	198	181	9.4%
ADD and other insurance[1]	158	121	30.6%
Total non-life insurance without motor insurance	744	613	21.4%
Total corporate insurance segment (non-life insurance)	**1,894**	**1,463**	**29.5%**

[1]) This line item includes loan guarantees and financial insurance, assistance, travel, marine, railway and air insurance.

In the first 3 quarters of 2017, in the corporate insurance segment, gross written premium grew by PLN 431 million (+29.5% y/y) as compared to the first 3 quarters of 2016. The following factors were recorded concerning premiums:

- increase in motor insurance sales (+35.3% y/y) offered through leasing companies and in fleet insurance (mainly TPL insurance) as a consequence of the higher average premium and number of insurance policies;
- premium growth in fire insurance and other physical losses (+24.8% y/y) and other TPL insurance (+9.4% y/y) as the offshoot of signing several high unit value agreements, after large entities from the energy, chemical and coal industries enrolled in TUW PZUW;

- higher growth rate in the sales in ADD and other insurance (+30.6% y/y) as a result of the development of cooperation of TUW PZUW with partners offering assistance insurance.

Data from the statement of profit or loss – corporate insurance (non-life insurance)	**1 January – 30 September 2017**	**1 January – 30 September 2016**	**% change**
Gross written premiums	1,894	1,463	29.5%
Net earned premium	1,485	1,224	21.3%
Investment income	70	81	(13.6%)
Net insurance claims and benefits	(978)	(775)	26.2%
Acquisition expenses	(312)	(259)	20.5%
Administrative expenses	(96)	(85)	12.9%
Reinsurance commissions and profit-sharing	19	14	35.7%
Other	(15)	-	X
Insurance result	**173**	**200**	**(13.5%)**
acquisition expense ratio (including reinsurance commissions)[1)]	19.7%	20.0%	(0.3) p.p.
administrative expense ratio[1)]	6.5%	6.9%	(0.4) p.p.
loss ratio [1)]	65.9%	63.3%	2.6 p.p.
combined ratio (COR) [1)]	92.1%	90.3%	1.8 p.p.

[1)] ratios calculated using net earned premium

Net insurance claims and benefits surged 26.2% while earned premium edged up by 21.3%, translating into deterioration in the loss ratio by 2.6 percentage points. A higher loss ratio was recorded chiefly in the following:

- general TPL insurance and fire insurance as a result of reporting several high unit value claims (including several intra-group reinsurance claims) and the occurrence of damage caused by weather phenomena (hurricanes);
- motor own damage (AC) insurance as a result of the rising average payout and the higher frequency of claims;

The above changes were partially offset by the lower level of claims and benefits in insurance for various other financial risks.

The 13.6% y/y decline in income from investments allocated to the corporate insurance segment ensued chiefly from the 2.6% depreciation in the PLN/EUR exchange rate compared to 1.2% appreciation in the corresponding period of the previous year.

The PLN 53 million or 20.5% upswing in acquisition expenses in the corporate insurance segment compared to the first 3 quarters of 2016 stemming primarily from higher direct acquisition expenses is a consequence of the considerably higher sales growth rate (+29.5% y/y).

Administrative expenses increased 12.9%, which, given the fact that the earned premium went up 21.3%, translated into an improvement in the administrative expense ratio by 0.4 percentage points. The decline in the expense ratio was due to lower costs of project activity and a higher rate of growth in sales.

The corporate insurance segment generated an insurance profit of PLN 173 million after Q3 2017, i.e. 13.5% less than in the corresponding period of the previous year. Suppressed profitability in the portfolio of insurance for losses caused by calamities (several high unit value claims reported, including instances of damage caused by hurricanes) and in the motor own damage insurance portfolio (higher average claim payment) chiefly triggered the decline in the insurance profit.

14.2 Mass insurance – non-life insurance

Gross written premium by product group	1 January – 30 September 2017	1 January – 30 September 2016	% change
Motor TPL insurance	3,467	2,620	32.3%
MOD insurance	1,788	1,548	15.5%
Total motor insurance	5,255	4,168	26.1%
Insurance against fire and other damage to property	1,326	1,188	11.6%
Other TPL insurance (classes 11, 12, 13)	308	322	(4.3%)
ADD and other insurance[1)]	619	661	(6.4%)
Total non-life insurance without motor insurance	2,253	2,171	3.8%
Total mass insurance segment (non-life insurance)	**7,508**	**6,339**	**18.4%**

[1]) This line item includes loan guarantees and financial insurance, assistance, travel, marine, railway and air insurance.

In the first 3 quarters of 2017, in the mass insurance segment, gross written premium increased by PLN 1,169 million (+18.4% y/y) compared to the corresponding period of 2016. This change resulted primarily from the following:

- higher motor insurance gross written premium (+26.1% y/y) as an effect of the higher average premium on the coattails of price hikes coupled with the rising number of insurance policies;
- incremental growth in the premium for fire insurance and other physical losses (+11.6% y/y), including PZU DOM residential insurance and agricultural insurance (chiefly subsidized crop insurance) despite the fierce competition on the market;
- lower written premium in the group of other TPL insurance (-4.3% y/y) and ADD and other insurance (-6.4% y/y), chiefly insurance of various financial risks and illness.

Data from the statement of profit or loss – mass insurance (non-life insurance)	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	7,508	6,339	18.4%
Net earned premium	7,026	5,742	22.4%
Investment income	370	386	(4.1%)
Net insurance claims and benefits	(4,586)	(3,975)	15.4%
Acquisition expenses	(1,285)	(1,123)	14.4%
Administrative expenses	(422)	(442)	(4.5%)
Reinsurance commissions and profit-sharing	(5)	(9)	(44.4%)
Other	(147)	(187)	(21.4%)
Insurance result	**951**	**392**	**142.6%**
acquisition expense ratio (including reinsurance commissions)[1)]	18.4%	19.7%	(1.3) p.p.
administrative expense ratio[1)]	6.0%	7.7%	(1.7) p.p.
loss ratio [1)]	65.3%	69.2%	(3.9) p.p.
combined ratio (COR) [1)]	89.6%	96.6%	(7.0) p.p.

[1)] ratios calculated using net earned premium

Net insurance claims and benefits in the 9-month period ended 30 September 2017 rose 15.4%, which when coupled with net earned premium being up 22.4%, translates into the loss ratio improving by 3.9 percentage points.

This movement was triggered chiefly by the decline in the loss ratio in the following insurance group:

- other losses to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by the forces of nature. At that time, the claims caused by ground frost were up more than PLN 230 million compared to the average for the preceding 3 years;
- motor TPL as an effect of the changes made to the average premium and a lower number of high unit value events; this effect was partially offset by the observed growth in the average claim value and the climbing claims frequency.

These positive changes were partly offset by the higher level of the loss ratio in insurance for losses caused by calamities due to the occurrence of an above-average number of claims resulting from weather phenomena such as hurricanes and hail storms.

The 4.1% y/y decline in income from investments allocated to the mass insurance segment ensued chiefly from the 2.6% depreciation in the PLN/EUR exchange rate compared to 1.2% appreciation in the corresponding period of the previous year.

In the first 3 quarters of 2017, acquisition expenses totaled PLN 1,285 million in the mass insurance segment, signifying growth of PLN 162 million (+14.4%) compared to the corresponding period of the previous year. The rising level of direct acquisition expenses (also chiefly as an outcome of the growing motor insurance portfolio) was the driver behind the level of acquisition expenses. The additional factor that had a positive effect on acquisition expenses was the fact that, according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered (since Q2 2016, such consideration has been recognized in the administrative expenses line item).

The dip in administrative expenses of PLN 20 million (i.e. 4.5%) compared to the first 9 months of 2016 is the consequence of lower project-related expenses and current operations pertaining to, among others, IT expenses and real estate costs.

Improved profitability in agricultural insurance chiefly contributed to the growth of PLN 559 million (+142.6%) compared to the first 3 quarters of 2016 in the insurance profit in the mass insurance segment (lower level of mass losses). To a lesser extent this was due to motor insurance (the result of changing the average price was partially offset by the higher average claim payment coupled with the growing claims frequency).

14.3 Group and individually continued insurance – life insurance

Gross written premium was higher than in the corresponding period of the previous year by PLN 67 million (1.3%), which was mainly the result of the following:

- attracting more premium income in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product);
- growth in group protection insurance (higher average premium and average number of riders taken out by each insured);
- active up-selling of riders in individually continued products, including, in particular, along with offering basic agreements in PZU branches, and raising sums insured during the term of the existing agreements.

Data from the statement of profit or loss – group and individually continued insurance	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	5,145	5,078	1.3%
Group insurance (periodic premium)	3,660	3,619	1.1%
Individually continued insurance (periodic premium)	1,485	1,459	1.8%
Net earned premium	5,142	5,079	1.2%
Investment income	575	501	14.8%
Net insurance claims and benefits and movement in other net technical provisions	(3,863)	(3,710)	4.1%
Acquisition expenses	(248)	(246)	0.8%
Administrative expenses	(426)	(425)	0.2%
Other	(49)	(53)	(7.5)%
Insurance result	**1,131**	**1,146**	**(1.3)%**
Insurance result net of the conversion effect	**1,101**	**1,120**	**(1.7)%**
acquisition expense ratio [1)]	4.8%	4.8%	(0.0) p.p.
administrative expense ratio[1)]	8.3%	8.4%	(0.1) p.p.
insurance margin net of the conversion effect [1)]	21.4%	22.1%	(0.7) p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income rose PLN 74 million mainly due to the higher income on unit-linked products (principally employee pension schemes) as a result of better conditions on the equity market – the WIG index surged up by 24.2% compared to 1.3% in the corresponding period of last year. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Insurance claims and benefits and the net movement in other net technical provisions totaled PLN 3,863 million (up 4.1% y/y). This change was driven by the following factor in particular:

- higher number of deaths in Q1 compared to last year and the number of claims paid for that reason in protection insurance. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict; in Q2 and Q3, the loss ratios returned to those observed in the corresponding period of last year;
- higher than one year ago growth in both the level of transfer payments and technical provisions in Employee Pension Plans (PPE, a third pillar retirement security product), where in the latter case the reasons included considerably better investment performance than one year earlier coupled with a stable level of client contributions to unit-linked insurance accounts;
- incremental growth in the costs of benefits in health insurance as an effect of the rapid expansion of this contract portfolio.

These effects were partially offset by the reversal of mathematical provisions for continued products after the insured's death and at the same time the rate of conversion of long-term contracts into yearly term agreements in type P group insurance exceeding last year's level. As a result of these conversions, provisions were released for PLN 30 million, some PLN 4 million more than in the corresponding period of 2016.

Acquisition expenses in the group and individually continued insurance segment in the first 9 months of 2017 were PLN 248 million, increasing by PLN 2 million (0.8%) compared to the corresponding period of last year. The factor determining the increase in these expenses was the expanding portfolio of group protection and health products with a concurrent increase in the share of revenues generated in this portfolio by high-commission brokerage channels. This effect was simultaneously offset as a result of the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense.

Administrative expenses during the first 3 quarters of 2017 remained at a level similar to that recorded in the corresponding period in 2016. The PLN 1 million (0.2%) change was caused mainly by:

- the signing, in Q2 2016, of a new agency agreement in the bancassurance channel as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense;
- this adverse factor was counterbalanced by cost cutting in project-related activities and in current activity by constantly maintaining cost discipline.

Operating profit in the group and individually continued insurance segment in the first 3 quarters of 2017 dropped compared to the corresponding period of 2016 by PLN 15 million (1.3%) to PLN 1,131 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 19 million (1.7%) – mainly as a result of the higher number of deaths compared to last year and the number of benefits paid for that reason in Q1. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict. In Q2 and Q3, the loss ratios returned to the levels observed in the corresponding period of last year.

14.4 Individual insurance - life insurance

Gross written premium by payment type – individual insurance	1 January – 30 September 2017	1 January – 30 September 2016	% change
Periodic premium	443	391	13.3%
Single premium	753	459	64.1%
Total	**1,196**	**850**	**40.7%**

The growth in gross written premium of PLN 346 million (40.7%) to PLN 1,196 million compared to the first 3 quarters of 2016 was the result of the following:

- higher contributions to the unit-linked insurance accounts offered jointly with Bank Millennium;
- sales launch of a new unit-linked product with Alior Bank at the outset of 2017;
- higher contributions to the unit-linked insurance accounts offered by PZU Branches, especially IRA and the Goal for the Future products;
- constantly rising level of premiums on protection products in endowments and term insurance – the volume of sales is greater than the number of instances of reaching the endowment age, surrenders, lapses and deaths in the existing portfolio.

Data from the statement of profit or loss – individual insurance	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	1,196	850	40.7%
Net earned premium	1,198	853	40.4%
Investment income	369	204	80.9%
Net insurance claims and benefits and movement in other net technical provisions	(1,276)	(765)	66.8%
Acquisition expenses	(103)	(78)	32.1%
Administrative expenses	(42)	(43)	(2.3)%
Other	(2)	(6)	(66.7)%
Insurance result	**144**	**165**	**(12.7)%**
acquisition expense ratio [1)]	8.6%	9.2%	(0.6) p.p.
administrative expense ratio[1)]	3.5%	5.1%	(1.6) p.p.
insurance margin [1)]	12.0%	19.4%	(7.4) p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. They rose PLN 165 million y/y in the individual insurance segment, mostly on account of the growth in the result on investment products – this was predominantly the effect of higher yields of funds in unit-linked products, in particular in the bancassurance channel, and better performance recorded in the IKE individual retirement account product. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 1,276 million, reflecting an increase in costs by PLN 511 million compared to the corresponding period of 2016. This was caused by significantly higher increases in provisions, predominantly for unit-linked products in the bancassurance channel and to a lesser extent the same type of products offered within PZU's own network (mostly IKEs). In both cases, this resulted both from an increase in customer deposits in unit-linked fund accounts and significantly better results of investment activity in the reporting period.

In the first 3 quarters of 2017, acquisition expenses increased in the individual insurance segment by PLN 25 million to PLN 103 million. This was driven by a significantly higher volume of sales of unit-linked products in the bancassurance channel with prepaid commissions and, to a lesser extent, by additional expenses resulting from the growing involvement of own network in the acquisition of individual protection products.

Administrative expenses during the first 9 months of 2017 remained at a similar level as the year before, i.e. at PLN 42 million compared to PLN 43 million in the previous year.

The segment's operating result declined in comparison with the previous by PLN 21 million to PLN 144 million, mainly due to an increase in commissions for unit-linked products in the bancassurance channel. Another factor contributing to the decline in the profit margin was an increase in the share of the segment of investment products generating a much lower margin in the investment portfolio.

14.5 Banking business segment

The banking activity segment in the PZU Group is represented by Pekao and Alior Bank. In the first 3 quarters of 2017, the banking activity segment generated PLN 1,440 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 1,105 million compared to the first 3 quarters of 2016. This increase resulted predominantly from the finalization of the acquisition of Pekao and the commencement of its consolidation in June 2017.

Banking activity (m PLN)	1 January – 30 September 2017	1 January – 30 September 2016	% change
Revenues and expenses on account of fees and commissions	1,003	253	296.4%
Investment income	4,083	1491	173.8%
Interest expenses	(814)	(444)	83.3%
Administrative expenses	(2,470)	(809)	205.3%
Other	(362)	(156)	132.1%
Total	**1,440**	**335**	**329.9%**

14.5.1. Bank Pekao

As at the end of September 2017, PZU held a 20.00% equity stake in Pekao. Since 7 June 2017, the bank has been consolidated by the PZU Group using the full method and its result has been contributing to the performance of the "Banking activity" segment.

Since the commencement of consolidation in June 2017, Pekao has contributed PLN 918 million to operating profit (without amortization of intangible assets acquired as part of the Pekao acquisition transaction) in the "Banking activity" segment. At the same time, taking into consideration the 20.00% equity stake held by the PZU Group in the bank, in the same period of this year Pekao contributed PLN 184 million to the result attributable to the parent company (without amortization of intangible assets acquired in the Pekao acquisition transaction).

Net interest income is the main component of Pekao's financial result. In the first 3 quarters of 2017, Pekao's profitability, as measured by net interest margin, was kept at a level of 2.8%. In the period of consolidation by PZU, net fee and commission income amounted to PLN 625 million. This result was generated as the difference between commission income of PLN 729 million and commission expenses of PLN 104 million. In the period attributable to PZU, administrative expenses were PLN 1,075 million. As a result, after the first 3 quarters of 2017 the ratio of expenses to income stood at 45.2%. The level of operating profit generated by Pekao's business was also significantly affected by the levy on financial institutions. The tax burden on account of this levy has reached PLN 174 million since June 2017.

Pekao's total balance sheet value[4] as at the end of Q3 2017 was PLN 171.4 billion. Net credit receivables from clients stood at PLN 117.6 billion (up 3.2% in Q3), while liabilities to clients were PLN 134.8 billion (up 0.7% in Q3).

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

Thanks to Pekao's efficient commercial activity in the first 3 quarters of 2017, the bank posted significant growth in loan volumes in the area of retail loans coupled with growth in corporate loans. The expansion of its lending activity was almost fully funded with larger volumes of deposits.

14.5.2. Alior Bank

As at the end of September 2017, PZU along with its subsidiaries held a 32.23% equity stake in Alior Bank.

After the first 3 quarters of 2017, in the "Banking activity" segment Alior Bank contributed PLN 522 million in operating profit (without amortization of intangible assets acquired as part of the Alior Bank acquisition transaction), representing an increase by PLN 187 million compared to the first 3 quarters of 2016. At the same time, the PZU Group holds a 32.23% equity stake in the bank and this year, the bank contributed PLN 161 million to the result attributable to the parent company (without amortization of intangible assets acquired in the Alior Bank acquisition transaction).

Net interest income is the main component of Alior Bank's financial result. Its increase year on year was a consequence of both the acquisition of a spun-off portion of Bank BPH and organic growth in the volume of loans granted to clients coupled with the accompanying increase in client deposits. As a result, the size of the net client loan portfolio grew 42.3% year on year. A favorable impact on the level of generated interest income was also exerted by Alior Bank's conduct of an adequate pricing policy both with respect to deposit products and credit products, in an environment of low interest rates. After the first 3 quarters of 2017, Alior Bank's profitability, as measured by the net interest margin, remained high at 4.7% and was 0.2 p.p. higher than the interest margin recorded in the first 3 quarters of 2016. The increase in margin was driven, among other factors, by the continued pursuit of an effective pricing policy. Net fee and commission income grew 52.9% to PLN 378 million. This result was generated as the difference between commission income of PLN 628 million (up 52.9% year on year). The main item of the fee and commission income is commissions related to loans, accounts, transfers, deposits and withdrawals, loans etc. Their year-on-year increase resulted predominantly from higher commissions charged for the handling of cards, bank accounts, loans and advances and brokerage fees. In the first 3 quarters of 2017, administrative expenses were PLN 1,396 million, up by PLN 623 million, or 80.6%, from administrative expenses incurred in the corresponding period of the previous year. The foremost reason for the increase in costs in the period under analysis compared to the corresponding period of the previous year is the expenses associated with the process of acquisition of a spun-off portion of Bank BPH. As a result, after the first 3 quarters of 2017 the ratio of expenses to income stood at 51% (49% excluding integration expenses) compared to 47% in the first 3 quarters of 2016. The level of operating profit generated by Alior Bank's business was also significantly affected by the levy on financial institutions. The tax burden on account of this levy in the first 3 quarters of 2017 amounted to PLN 149 million.

As at the end of Q3 2017, Alior Bank's total balance sheet value[5] surged 40.0% year on year to PLN 64.7 billion. In the same period, net credit receivables from clients increased 42.3% to PLN 49.1 billion, while liabilities to clients went up 45.6% to PLN 54.5 billion. Compared to yearend 2016, the total balance sheet value increased 6.4%, net credit receivables from clients rose 9.1% and liabilities to clients increased 6.1%. The main items generating the increase in the total balance sheet value were, on the assets side: receivables from clients (a y/y increase by PLN 14.6 billion to PLN 49.1 billion) and available for sale financial assets (up by PLN 2.8 billion y/y to PLN 9.2 billion), while the following items generated the increase on the liabilities and equity side: client deposits (up by PLN 16.6 billion to PLN 51.2 billion) and equity (an increase by PLN 0.8 billion to PLN 6.3 billion).

[5] Carrying amounts including the effect of the adjustment to the measurement of balance sheet items at fair value as at the consolidation date and their further measurement and the amortization of intangible assets identified in the acquisition of Alior Bank.

14.6 Investments

Net investment result and interest expenses

In the first 3 quarters of 2017, the PZU Group's net investment result[6] was PLN 5,833 million compared to PLN 2,635 million in the corresponding period of 2016 (up 121.4%). The higher result is above all the effect of the higher result achieved on the activity conducted by the banking sector (among others, interest income, also on loans and the trading result) as a consequence of commencing bank Pekao's consolidation and the merger of Alior Bank with BPH's spun-off operations. After factoring in interest expenses and precluding the impact exerted by the banking activity, net investment result in the first 3 quarters of 2017 was PLN 1,615 million. It was higher than last year's result by PLN 596 million, which was primarily due to the following drivers:

- PLN 358 million upsurge in the value of the equity stake held in the Azoty Group;
- higher result earned on listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index went up 24.2% in the first 3 quarters of 2017 compared to 1.3% in the corresponding period of the previous year;
- performance in the portfolio of assets to cover investment products up by PLN 256 million y/y, including in particular funds in the unit-linked portfolio, even though it does not affect the PZU Group's result;
- lower result earned on interest-bearing financial instruments, primarily due to the poorer performance of the foreign currency bond portfolio (held mainly for the purposes of hedging financial liabilities on account of the issue of own debt securities) and the lower level of assets in connection with financing the purchase of shares in Pekao; this effect was compensated by:
  - positive impact exerted by the foreign exchange differences on own debt securities in conjunction with the appreciation of the PLN versus EUR following a depreciation in the comparable period;
  - better performance of non-treasury debt market instruments due to the acquisition of high-margin exposures for the portfolio;
  - purchase of 30-year bonds on the primary market for PLN 2 billion for the held-to-maturity bond portfolio.

Movement in net investment result after factoring in interest expenses

Net investment result after factoring in interest expenses	1 January – 30 September 2017	1 January – 30 September 2016	% change
Equity instruments	515	142	262.7%
Azoty Group	118	(240)	x
Interest-bearing financial instruments	1,109	1,230	(9.8)%
Interest on own debt securities	(58)	(38)	x
Foreign exchange differences on own debt securities	98	(44)	x
Investment properties	(50)	174	x
Derivatives	203	(60)	x
Other	(320)	(145)	x
Total, net of banking activity	**1,615**	**1,019**	**58.5%**
Alior	1,787	1,110	60.9%
Pekao	1,547	-	x
Total	**4,949**	**2,129**	**132.5%**

[6]The net investment result consists of net investment income, net realized result and impairment charges on investments and the net movement in the fair value of assets and liabilities measured at fair value.

Operating income of the investment segment (based exclusively on external transactions) stood at PLN 308 million, compared to PLN -370 million in the corresponding period of 2016, primarily due to the upward trend on the Warsaw Stock Exchange.

As at the end of September 2017, the value of the PZU Group's investment portfolio[7], excluding the impact of banking activity, was PLN 47,482 million compared to PLN 50,488 million as at the end of 2016.

The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability. Debt treasury securities accounted for over 60% of the investment portfolio, net of the impact of banking activity, both as at 30 September 2017 and 31 December 2016.

The increase in the volume of loans resulted from the persistently implemented investment policy aimed at achieving a greater diversification of the investment portfolio.

The lower level of treasury debt market instruments is associated with funding the acquisition of the equity stake in Pekao.

Structure of the portfolio of investments excluding the impact of banking activity

Investment portfolio	**30 September 2017**	**31 December 2016**
Equity instruments, including:	7,063	7,409
- listed	2,742	3,700
- other	4,321	3,709
Interest-bearing financial assets, including:	38,056	40,411
Debt securities – government	31,321	32,263
Debt securities – other	1,557	3,122
Reverse repo transactions and term deposits in credit institutions	1,622	3,318
Loans	3,556	1,708
Investment properties	2,677	2,830
Derivatives (net value)	36	(14)
Liabilities under sell-buy-back transactions	(350)	(148)
Total investment portfolio	**47,482**	**50,488**

14.7 Pension insurance

Pension insurance	**1 January 2017 - 30 September 2017**	**1 January 2016 - 30 September 2016**	**% change**
Investment income, including:	4	4	0.0%
Other income	91	81	12.3%
Income	**95**	**85**	**11.8%**
Administrative expenses	(35)	(29)	20.7%
Other	(1)	(1)	0.0%
Operating result	**59**	**55**	**7.3%**

Revenues on core business in the pension insurance segment for the first 3 quarters of 2017 and the first 3 quarters of 2016 were PLN 91 million and PLN 81 million, respectively. The PLN 10 million (12.3%) change was mainly due to a higher income from the management of the "PZU Złota Jesień" open-end pension fund, driven by a higher average net asset value due to a better situation on the financial markets.

Administrative expenses of PTE PZU increased by PLN 6 million y/y (+20.7%). The main contributing factor to this deviation were surcharges for the Indemnity Fund, which went up almost PLN 5 million due to the rapid growth of the "PZU Złota Jesień" open-end pension fund managed by PTE PZU.

[7] The investment portfolio includes financial assets (including investment products net of loan receivables from clients), investment properties (including the portion presented in the class of assets held for sale), the negative measurement of derivatives and liabilities under sell-buy-back transactions.

As at the end of Q3 2017, the total net asset value of all open-end pension funds on the market was PLN 181.1 billion, up 26.8% from the end of September 2016. In the same period, OFE PZU's assets grew 27.0% to PLN 23.5 billion. In the period from January to September 2017, ZUS transferred to OFE PZU gross contributions in the amount of PLN 243.2 million with interest, which was 7.1% more than in the corresponding period of 2016. OFE PZU transferred PLN 519.7 million to ZUS in what is known as the "slide". OFE PZU's rate of return in the period of the first 9 months of 2017 was +19.7%.

14.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	1,028	868	18.4%
Net earned premium	910	813	11.9%
Investment income	15	17	(11.8%)
Net insurance claims and benefits	(566)	(514)	10.1%
Acquisition expenses	(201)	(186)	8.1%
Administrative expenses	(83)	(82)	1.2%
Other	1	(1)	(200.0%)
Insurance result	**76**	**47**	**61.7%**
EUR exchange rate in PLN	4.2566	4.3688	(2.6%)
acquisition expense ratio [1)]	22.1%	22.9%	(0.8 p.p.)
administrative expense ratio[1)]	9.1%	10.1%	(1.0 p.p.)

[1)] Ratios calculated using net earned premium

As part of its Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is distributed by entities acquired in 2014: Lietuvos Draudimas – leader of the Lithuanian market (acquired on 31 October 2014), AAS Balta (acquired on 30 June 2014) and the Estonian branch of Lietuvos Draudimas (since 31 October 2014). Life insurance is sold by UAB PZU Lietuva Gyvybes Draudimas.

As at the end of September 2017, the share in the Lithuanian non-life insurance market was 30.6%, the share in the life insurance market was 6.0% and the share in the Estonian non-life insurance market was 15.6%. In turn, at the end of H1 2017, the share in the Latvian market was 27.6%.

After the first 3 quarters of 2017, the PZU Group's business in the Baltic states generated an insurance result of PLN 76 million compared to PLN 47 million in the corresponding period of the previous year.

This result was driven by the following factors:

- increase in gross written premium, It amounted to PLN 1,028 million, up PLN 160 million compared to the first 3 quarters of the previous year. Non-life insurance recorded an increase by PLN 155 million, in particular in motor insurance driven by an upturn in insurance rates in the region. In life insurance, written premium increased by PLN 5 million (or 13.5%). The rate of growth in gross written premium in the Baltic states segment stood at 18.4%;
- decrease in investment income. As at the end of September 2017, the result on investments reached PLN 15 million and was PLN 2 million lower than in the corresponding period of the previous year;
- increase the value of net claims and benefits. They amounted to PLN 566 million and were 10.1% higher than in the first 3 quarters of the previous year. The loss ratio in non-life insurance stood at 61.6%, down 0.9 p.p. from the corresponding period of the previous year: milder weather conditions and a lower frequency of mass damage were partially offset by several large damage cases in the region. In life insurance, the value of benefits was PLN 32 million, up PLN 3 million compared to the end of September 2016, both due to an increase in claims paid and higher provisions for client risk;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 201 million, up 8.1% from the corresponding period of the previous year. However, the acquisition expense ratio calculated based on net earned premium declined 0.8 p.p. compared to the first 3 quarters of the previous year, partly as a result of an increase in the portfolio share of motor insurance entailing lower commission liabilities;

- increase in administrative expenses. These reached PLN 83 million and were 1.2% higher than in the comparable period of the previous year. However, despite the increase in expenses, a decrease in the administrative expense ratio was recorded, standing at 9.1%, down 1.0 p.p. relative to the same period of the previous year. The lowering of administrative expenses was possible due to the maintenance of cost discipline, notably in the IT area.

14.9 Ukraine

Data from the statement of profit or loss – Ukraine segment	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	168	155	8.4%
Net earned premium	91	78	16.7%
Investment income	12	17	(29.4%)
Net insurance claims and benefits	(41)	(37)	10.8%
Acquisition expenses	(50)	(43)	16.3%
Administrative expenses	(17)	(16)	6.3%
Other	16	16	0.0%
Insurance result	**11**	**15**	**(26.7%)**
UAH exchange rate in PLN	0.1436	0.1531	(6.2%)
acquisition expense ratio [1)]	54.9%	55.1%	(0.2 p.p.)
administrative expense ratio[1)]	18.7%	20.5%	(1.8 p.p.)

[1)] Ratios calculated using net earned premium

As part of the Ukrainian operations, the PZU Group offers non-life insurance as well as 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 2017 was 3.3%, while the life insurance market share was 10.6%. According to the Insurance TOP quarterly journal8, the non-life company ranked 5th on the market in terms of gross written premium, while the company distributing life insurance products ranked 4th.

The Ukraine Segment closed Q3 2017 with operating profit of PLN 11 million, compared to PLN 15 million in the corresponding period of last year.

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

- increase in gross written premium, It amounted to PLN 168 million, up PLN 13 million (or 8.4%) compared to the corresponding period of 2016. In life insurance, written premium was PLN 30 million, up PLN 4 million compared to the year before, in particular as a result of higher sales of protection insurance. At the same time, gross written premium in non-life insurance grew 7.0% compared to the previous year as a result of higher sales in the mass segment;
- lower investment income. It reached PLN 12 million and was 29.4% lower than in the corresponding period of last year, due predominantly to lower income from investments at a client's risk;
- increase in costs of claims and benefits. These reached PLN 41 million and were 10.8% higher than in the first 3 quarters of 2016. The loss ratio in non-life insurance rose 5.3 p.p. to 46.8% compared to the corresponding period of the previous year. In life insurance, the value of benefits decreased 20.0% due to the reversal of certain provisions for client risk;
- higher acquisition expenses. They stood at PLN 50 million compared to PLN 43 million as at the end of Q3 2016. At the same time, the acquisition expense ratio calculated against net earned premium declined 0.2 p.p.;
- increase in administrative expenses. They were PLN 17 million vis-à-vis PLN 16 million in the corresponding period of the previous year. This increase was associated with indexation of salaries and higher real estate maintenance expenses, among other contributing factors. The segment's administrative expense ratio went down 1.8 p.p. to 18.7%.

[8] Insurance TOP #2 2017

14.10 Investment contracts

In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IAS 39.

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.

Volumes obtained on investment contracts by payment type	1 January – 30 September 2017	1 January – 30 September 2016	% change
Periodic premium	30	31	(3.2)%
Single premium	-	38	(100.0)%
Total	**30**	**69**	**(56.5)%**

Gross written premium generated on investment contracts in the first 3 quarters of 2017 fell by PLN 39 million (-56.5%) compared to the corresponding period of 2016, to PLN 30 million. The changes in gross written premium were caused mainly by the withdrawal of short-term endowment insurance products (term deposits packaged as insurance products) from own channel offering in June 2016.

Data from the statement of profit or loss – investment contracts	1 January – 30 September 2017	1 January – 30 September 2016	% change
Gross written premiums	30	69	(56.5)%
Group insurance	2	2	-
Individual insurance	28	67	(58.2)%
Net earned premium	30	69	(56.5)%
Investment income	27	13	107.7%
Net insurance claims and benefits and movement in other net technical provisions	(47)	(71)	(33.8)%
Acquisition expenses	(1)	(3)	(66.7)%
Administrative expenses	(6)	(7)	(14.3)%
Other	-	-	x
Operating result	**3**	**1**	**200.0%**
operating profit margin [1)]	10.0%	1.4%	855.1%

Result on investing activity in the investment contracts segment improved by PLN 14 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 decreased PLN 24 million y/y to PLN 47 million due to the withdrawal, in mid-2016, of short-term endowment products from the range of products offered in own channel (the absence of written premium this year does not generate any growth in technical provisions, while the value of benefits paid to persons reaching the endowment age is offset by a commensurate movement in technical provisions).

The decrease in acquisition expenses vis-à-vis the previous year was an effect of the lack of new sales and declining value of assets in unit-linked products in the bancassurance channel (a portion of the bank's fee depends on the level of assets) and additionally also a declining involvement of the company's own network in selling short-term investment endowment products following the withdrawal of products of this type from the offering in June 2016.

Administrative expenses totaled PLN 6 million, down 14.3% from the corresponding period of 2016 as a result of a decrease in the portfolio of agreements in this segment.

The operating result of the segment was PLN 3 million, compared to PLN 1 million in the first 9 months of 2016, mainly due to a decrease in operating expenses allocated to the segment's products.

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 and in the first 3 quarters of 2017 was PLN 4 million higher than in the corresponding period of the previous year. Moreover, in the first 3 quarters of 2017 a PLN 120 million one-off impact was recognized of a higher level of damage claims caused by weather phenomena (storms) than the average for the last 3 years.

In the first 3 quarters of 2016, above-average indemnity payments in agricultural insurance versus the last 3 years were recorded, having reached PLN 236 million.

16. Macroeconomic environment

Key trends in the economy and rate of economic growth

In Q2 2017, GDP grew 3.9% y/y compared to 4.0% y/y in Q1, its main drivers being household consumption (which contributed an additional 2.9 percentage points) and cyclical accumulation of inventories (which contributed an additional 1.9 percentage points). Investments went up only 0.8% y/y. Both private investments (due to a decline in investments by large State Treasury-owned companies) and public investments recorded only a slight increase. The strong growth in inventories was most probably the outcome of an anticipated increase in the scale of business activity. Net exports took away 1.5 percentage points from GDP growth in Q2. It seems, however, that the growth in imports was correlated with the increase in inventories and that the lower rate of growth in exports in Q2 should not be permanent given the current recovery in the Euro zone.

It seems that the GDP growth rate in Q3 may have exceeded 4.5% y/y. In addition to monthly data on business activity, the higher GDP growth rate is also suggested by business conditions surveys. The same period saw an upsurge in the rate of growth in industrial production sold (to 6.3% y/y compared to 4.2% y/y the quarter earlier), especially in the growth rate of construction and installation output (the monthly average rate jumped to 19.6% y/y from approx. 8.1% y/y in Q2). At the same time, contrary to expectations, retail sales grew slightly faster than in Q2 (with the monthly average of 7.1% y/y in constant prices compared to 6.6% y/y a quarter earlier). It may therefore be expected that the annual growth rate of household consumption will remain close to 5% y/y despite the phasing out of the impact of benefits disbursed under the 500+ program. Infrastructural investments co-financed with funds from the new EU financial perspective, currently entering their execution phase, will contribute to an increase the rate of growth in investments, even though in Q3 it probably was not higher than several percent. The economic growth in Q3 was supported by strong domestic demand and favorable international trends.

Labor market and consumption

In Q3 2017, growth in employment and a decline in the unemployment rate continued. In that period, the average monthly employment in the corporate sector increased by 29 thousand persons vs. 19 thousand the year before. The annual employment growth rate in the corporate sector in Q3 was similar to that in H1 2017 (a monthly average of 4.5% y/y). Demand for labor is on the rise but companies are also reporting more and more serious problems filling vacancies. The rate of registered unemployment fell down to 6.8% in September – the lowest level for more than 26 years. According to the labor force survey (LFS), the unemployment rate also keeps falling down steadily (5.0% in Q2).

Since the spring of this year, the wage growth rate has been increasing noticeably – in the corporate sector it reached 6.0% y/y in Q3 compared to 5.4% y/y in Q2. The wage growth rate in real terms also increased – in the corporate sector it was 4.1% y/y in Q3 compared to 3.5% y/y in the previous quarter. The higher real incomes coupled with a very good situation in the labor market drive the volume of consumption upward. Consumer confidence indicators remain at their record high levels. The drop in the unemployment rate and the continued strong demand for labor coupled with limited supply are factors that support the projections of even higher wage pressures and a faster wage growth.

Monetary policy, interest rates and inflation

In Q3 2017, the average inflation rate measured by the annual CPI was 1.9% y/y, i.e. slightly higher than in Q2 (1.8% y/y). However, the inflation rate increased from 1.5% y/y in June to 2.2% y/y in September, driven by higher food and fuel prices (on an annual scale). In that period, the average net core inflation (excluding food and energy prices) remained unchanged (0.8% y/y), but also in this case net inflation increased during Q3 (in September to 1.0% y/y). Business confidence surveys point to an increase in cost pressure and the industrial production price index in Q3 remained at a relatively high level of 2.8% y/y.

In 2017, the National Bank of Poland has not changed its interest rates. Since March 2015, the reference interest rate has stood at 1.5%. According to the Monetary Policy Council, the current level of interest rates supports the development of the Polish economy on a sustainable growth path and enables it to maintain the macroeconomic equilibrium.

Public finance

According to the Ministry of Finance, the estimated deficit of the public finance sector in the first 3 quarters of 2017 was PLN 1 billion. However, after September of this year, the State budget itself recorded a surplus of PLN 3.8 billion. This was the second case in the last 25 years (the first one was in 2007) when a surplus was recorded in this period. A significant contributing factor which enabled the successful performance of the State budget was the favorable growth of indirect tax revenues, which after the first 3 quarters of 2017 remained above 16.5% y/y. This was the result of efforts aimed at sealing the tax system coupled with the rapid growth of GDP and the favorable structure of economic growth. After the first 3 quarters of 2017, VAT revenues increased 23.3% y/y and CIT revenues increased 12.6% y/y. The good performance of the State budget after the first 3 quarters of 2017 was also the result of a lower level of expenditures than originally expected. Due to the good performance of the State budget, not a single auction of State Treasury bonds was held in Q3.

Situation on the financial markets

On the bond market, Q3 2017 may be broken down into two distinct periods. The period from the beginning of July to the end of August was marked by a fall in the yields on German and U.S. treasury bonds. The fall in the yields on U.S. bonds was caused by doubts about the pace of monetary policy tightening imposed by the Fed given the surprisingly low inflation readings fueling concerns on the markets. Also in Europe, core inflation, despite the rapid GDP growth and the declining unemployment rate, was still low. Concerns were also high that the strengthening of the single European currency might delay the tightening of monetary policy in the Euro zone. These factors, along with the increase in geopolitical risk associated with actions taken by North Korea, caused the yields on German bonds (commonly considered as safe instruments) to drop. In turn, September was marked by a reversal of the two-month trend and an increase in the yields on German and U.S. bonds. In Europe, this change was triggered by Mario Draghi who suggested that a plan to reduce the purchase of bonds by the ECB will be announced later this year. The increase in the yields on U.S. bonds was a consequence of a series of favorable macroeconomic data and "hawkish" remarks by Janet Yellen following the September Fed meeting.

The yields on Polish treasury securities in Q3 were strongly affected by sentiments on the global financial markets. For the most part, in Q3 the yields on Polish treasury bonds followed the yields on German and U.S. treasury bonds. The behavior of Polish treasury bonds diverged from the behavior of their foreign counterparts only in the second half of July and at the beginning of August. The factor contributing to the increase in the yields on Polish bonds in this period was the rise in political risk associated with the European Commission's concerns about the proposed changes in the country's judiciary system. In Q3, the yields on Polish 10-year treasury bonds oscillated within the range between 3.15% (at the beginning of September) and 3.44% (at the beginning of August). The difference between yields offered by Polish and German 10-year treasury bonds remained relatively stable. The spread between yields offered by Polish and U.S. 10-year treasury bonds also underwent only minor fluctuations (tightened by 10 basis points).

In Q3, the euro exchange rate strengthened considerably against the U.S. dollar. This strong trend ended only at the end of September when a slight rebound was recorded. The EURUSD exchange rate increased from approx. 1.14 at the end of June 2017 to approx. 1.17 at the end of September. The weakening U.S. dollar was the result of growing concerns about the pace of monetary policy tightening in the United States. In Q3 2017, the Polish currency depreciated against the euro (EURPLN) by 1.5% and at the same time appreciated against the U.S. dollar (USDPLN) by 0.6%. The Polish zloty also appreciated significantly (by 2.3%) against the Swiss franc (CHFPLN).

In Q3, stock market indices in the United States continued their upward trend observed in the previous quarters. The S&P 500 gained 4% in that period. By contrast, in July and August the German DAX continued its downward trend which began already in Q2. Among the factors responsible for these decreases was the considerable strengthening of the euro, which investors perceived as detrimental to exports by European companies. September, however, brought a sharp rebound in the DAX index. Overall in Q3, the German index gained 4.1%.

In Q3 2017, the Polish stock market index WIG also recorded a sharp increase of 5.4%. The WIG20 index of large companies gained over 6.5%. The mWIG40 index of medium-sized companies remained unchanged while the sWIG80 index of small companies recorded a significant slump in this period. This means that the WIG growth in Q3 was caused predominantly by large companies, in particular by sharp increases in stock prices of companies from the utility and fuel sectors.

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

18.1 Non-life insurance

Besides chance events (such as floods, hurricanes or droughts), the main factors that may affect the situation of the non-life insurance sector in the subsequent quarter of 2017 include:

- potential slowdown in Poland's economic growth due to deteriorating external circumstances, resulting in a mismatch with the expected rate of growth in investments coupled with uncertainty and a poorer outlook for economic growth. This may trigger cuts in household spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of mortgage 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 and a higher loss ratio on the financial insurance portfolio;
- prospect of higher rates of inflation and economic growth, driving an upsurge in yields on treasury bonds, which is beneficial for the PZU Group in the long term, even though it may unfavorably affect investment income in the short term. Numerous risk factors intensifying volatility on the financial markets, such as the potentially painful effects of hardly predictable political decisions, in particular in European Union states, may significantly affect the outlook for various asset classes on financial markets;
- judicial decisions of the Supreme Courts regarding the amounts of monetary compensation for moral 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, good even if the personal injury occurred before 3 August 2008;
- possible increase in claims handling costs 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;
- increase in the prices of spare parts affecting claims handling costs due to the depreciation of the Polish zloty against the euro;
- administrative decisions issued by the Office for Competition and Consumer Protection (UOKiK) and social pressures on the prices of motor insurance products forcing insurance companies to modify their pricing policy.

18.2 Life insurance

The most significant risk factors which may affect the results in the group, individually continued and individual insurance segment (life insurance) in the next quarter of 2017 include:

- potential intensification of competition in group insurance resulting from strengthening role of brokers in this segment and the requirement to invite tenders for group insurance by entities subject to the requirements of the Act of 29 January 2004 entitled the Public Procurement Law (Journal of Laws of 2013, Item 907; hereinafter "Public Procurement Law");
- mismatch between future reality and current expectations regarding a decrease in the rate of unemployment, wage growth or an increase in private consumption which may translate into a lack of growth in demand for insurance products;
- changes in the current mortality and morbidity levels;
- behavior of the capital market, which impacts the interest in the unit-linked products offered by PZU Życie;
- bill on insurance distribution – insurance undertakings adapting to the new regulations following the necessity to implement into the domestic legal order Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (Journal of Laws, UE L 26 of 2 February 2016, page 19), referred to as IDD;
- EU General Data Protection Regulation, i.e. GDPR – insurance undertakings adapting to the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC;
- final shape of the new pension security system (Capital Accumulation Scheme) that may affect insurers' policy regarding pension products and revenues in this line of business.

18.3 Pension funds

The main risk factor that may affect PTE PZU's business in the coming years is the Responsible Development Plan announced by the government which provides for changes in such areas as the country's current pension system. In particular, the reform, which stems from the statutory review of the insurance system, provides for a transfer of 25% of assets from open-end pension funds to the Demographic Reserve Fund and a transfer of 75% of assets to newly created individual retirement accounts managed by general pension fund companies transformed into investment companies. The possible dissolution of open-end pension funds is also expected to be accompanied by the introduction of a new general system of voluntary third-pillar employee pension plans in the corporate sector – Employee Capital Schemes under which contributions will be paid by both the employer and the employee and which will be managed by mutual fund companies.

18.4 Investment activity

The risk factors, which may affect investment performance include primarily:

- volatility of yields on treasury securities, which depends on the economic situation of Poland and other European Union countries - changes of the yields of securities may contribute the fluctuations of investment valuations;
- behavior of the capital market, particularly of the Warsaw Stock Exchange – part of the companies' investment activity income depends on the trends in this market. Furthermore, the interest in unit-linked products offered by PZU is positively correlated with trends in the capital markets.

18.5 Banking activity

The situation of the banking sector in 2017 will primarily be affected by:

- operation in the environment of record low interest rates, which puts pressure on the level of net interest margin.
- macroeconomic situation in the Polish economy – a rise in gross domestic product, employment and salaries, coupled with a historically low level of interest rates, have a favorable impact on the sales of loans and the quality of the credit portfolio;
- possible changes in the legal environment, including mainly the legislative solution of the issue of foreign currency residential loans, likelihood of increasing banks' contributions to BFG funds and potentially an obligation to make additional contributions to BFG.

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

19.1 PZU issue

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

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

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

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

19.2 Alior Bank issue

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

20. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2017, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 9-month period ended 30 September 2017, neither PZU nor its subsidiaries granted any loan sureties or guarantees to any single entity or any subsidiary of such an entity where the total amount of such sureties or guarantees would be the equivalent to at least 10% of PZU's equity.

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

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

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

The record date was 29 September 2017 and the dividend was paid out on 19 October 2017.

23. Disputes

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

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

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

During the 9 months ended 30 September 2017 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries, the unit value of which was at least 10% of PZU's equity.

As at 30 September 2017, the value of the subject matter of the litigation in all the 183,011 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 6,550 million. Out of this amount, PLN 4,078 million relates to liabilities and PLN 2,472 million to receivables of PZU Group companies.

In Q3 2017, there was still a pending lawsuit against Pekao received from Pekao's minority shareholder for annulment and possibly repealing Resolutions no. 5 and no. 21 adopted by Pekao's Ordinary Shareholder Meeting on 19 April 2017 to approve Pekao's financial statements for 2016 and to grant a discharge to a Member of Pekao's Management Board on the performance of duties in 2016. The value of the dispute in those proceedings was specified by the plaintiff as PLN

170,989 million. Pekao believes that the lawsuit is groundless and the value of the dispute specified by the plaintiff is incorrect which was confirmed (in respect to the value of the dispute) by decision of the Regional Court in Warsaw of 5 September 2017, by the power of which the value of the dispute was set at PLN 7 thousand.

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

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

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

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

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

In its judgment of 22 January 2010 the Regional Court in Warsaw repealed the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting in its entirety. PZU has used all the available appeal measures, including a cassation appeal to the Supreme Court which, on 27 March 2013, dismissed the cassation appeal. The judgment is final and not subject to further appeal.

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

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

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

On 17 December 2013, the Regional Court passed a judgment in which it accepted the claim in its entirety and awarded the costs of proceedings from PZU to MSC. On 4 March 2014, PZU filed an appeal against the above judgment, contesting it in its entirety. In its judgment of 11 February 2015, the Appellate Court in Warsaw changed the judgment of the Regional Court of 17 December 2013 in its entirety, dismissed MSC's claim and charged MSC with the court expenses. The Appellate Court's judgment is final. MSC challenged the Appellate Court's judgment in its entirety in a cassation appeal of 9 June 2015. PZU filed a response to the cassation appeal. With its decision of 19 April 2016, the Supreme Court refused to review MSC's cassation appeal. According to the provisions of the Code of Civil Procedure, the Supreme Court's ruling is final and not subject to further appeal and ends the proceedings in this case.

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

On 23 September 2015, a copy of the statement of claim with enclosures was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with 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 replied to the statement of claim requesting to dismiss the suit in its entirety. On 1 April 2016, MSC filed a pleading in which it responded to PZU's assertions, allegations and petitions and raised new arguments in the case. On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In its decision of 21 July 2016, the Court referred the case to a mediation procedure, to which PZU did not agree. In subsequent court sessions, the hearing of evidence will take place.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 September 2017, no changes have been 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 the funds in the Company's Social Benefit Fund have not been adjusted.

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

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

Apart from the aforementioned letters, shareholders, former shareholders or their legal successors sent to PZU demands for payment based on the facts presented above. Rather than indicating any specific amounts, some of them provided only the number of shares or merely submitted a demand for payment. PZU replied them in writing, stating that their claims are not existent and that they will not be accepted.

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

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

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

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

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

23.2 Proceedings conducted by President of UOKiK against PZU

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

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

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

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

On 27 March 2015, the Regional Court 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 issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. The judgment is not final and on 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. On 2 November 2017, PZU submitted a response to UOKiK President's appeal.

PZU had a provision for this penalty, which amounted to PLN 57 million as at 30 September 2017, 30 June 2017, 31 December 2016 as well as 30 September 2016.

23.3 Proceedings conducted by UOKiK President against PZU Życie

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

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

After a number of years of proceedings, on 30 September 2015, PZU Życie paid the imposed fine of PLN 50 million and the awarded costs of proceedings. On 18 March 2016, PZU Życie filed a cassation appeal with the Supreme Court. During the hearing of 26 September 2017, the Supreme Court decided to refer the case for resolution to the Court of Justice of the European Union in Luxembourg.

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 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 figures, PZU received 206,139 PBG's bonds with the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. Neither the bonds nor the shares were recognized in the consolidated financial statements since their fair value has been recognized to be zero, but they were recognized in off-balance sheet records.

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

23.5 Lawsuit against Pekao and Centralny Dom Maklerski Pekao SA

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

24. Other information

24.1 Assessment of PZU Group companies 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 the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, which is an assessment of the future position of the Company in the event of specific circumstances.

Current rating

On 28 March 2017, S&P affirmed its financial strength and credit ratings for PZU and PZU Życie awarded on 21 January 2016 at A-. On 27 October 2017, the S&P agency increased the rating outlook from negative to stable.

The table below presents ratings assigned to PZU and PZU Życie by S&P, together with those of the previous year.

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

Poland's credit rating

On 20 October 2017, S&P confirmed Poland's rating at BBB+/A-2 for long- and short-term liabilities in foreign currencies, respectively, and at A-/A-2 for long- and short-term liabilities in the domestic currency, respectively. The outlook is stable.

24.2 Related party transactions

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

In the period of 9 months ended 30 September 2017, neither PZU nor its subsidiaries executed any transaction with their related parties which were of material significance individually or collectively and were executed on terms other than based on an arm's length principle, except for those described below.

Under the master agreement signed on 7 August 2013 by and between PZU and PZU Życie, cash loans in PLN for a definite term of no more than 12 months are extended between these companies. The sum of the loans granted by each of the parties cannot exceed PLN 1 billion. The purpose of the aforementioned agreement is to provide a liquidity management tool in the PZU Group. The loans are not granted on the arm's length basis - no interest is accrued on the loans, and for granting the loan the lender is entitled to a commission in the amount of PLN 100 for each concluded loan agreement - however due to participation of both companies in the Tax Group, they are neutral from tax perspective. In the period of 9 months ended 30 September 2017, PZU Życie granted one such loan (on 2 June 2017 in the amount of PLN 500 million, which was repaid on 27 July 2017).

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

Account activity and balances of commercial transactions between the PZU Group and related parties	1 January – 30 September 2017 and as at 30 September 2017		1 January – 31 December 2016 and as at 31 December 2016		1 January – 30 September 2016 and as at 30 September 2016	
	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]
Gross written premium	-	2	-	3	-	2
in non-life insurance	-	2	-	3	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Fees and commission income	-	66	-	-	-	-
Other income	-	-	-	-	-	-
Costs	-	3	-	-	-	-
Receivables	-	14	-	-	-	-
Financial liabilities	-	337	-	-	-	-
Other liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] Senior level managers, data according to declarations.
[2] Unconsolidated companies in liquidation and associates measured by the equity method.

24.3 Headcount restructuring

On 9 March 2017, the PZU and PZU Życie Management Boards decided to continue the downsizing process in PZU and PZU Życie. On 22 March 2017, PZU and PZU Życie entered into an agreement with the trade unions operating in PZU and PZU Życie to lay down the terms and conditions for group layoffs, the number of persons subject to restructuring, the selection criteria for the layoffs, the financial package, the principles of protection of selected groups of employees and the timetable of group layoffs.

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

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

The process is implemented in accordance with the adopted timetable. In the period of 9 months ended 30 September 2017, the costs associated with the payment of benefits to the released employees amounted to PLN 29 million. As at 30 September 2017, the remaining restructuring provision amount was PLN 44 million.

24.4 Alior Bank's Second Public Bond Issue Program

On 23 August 2017, the Supervisory Board of Alior Bank gave its consent for the opening of Alior Bank's Second Public Bond Issue Program ("Program"). The total number of bonds issued under the Program will not exceed 12 million bonds, while the total par value of outstanding bonds cannot exceed PLN 1,200 million. The bonds will be issued and offered in series in a period no longer than 12 months from the date of approval of the prospectus by KNF. The maturity of the bonds will be up to 10 years from the issue date of the bond series. The bonds will be issued as common or subordinated bonds and the terms and conditions of the issue of the individual series will contain provisions allowing them to be classified as equity pursuant to Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012. Alior Bank will apply for admission and introduction of the bonds for trading on the regulated market or in the alternative trading system run by the Warsaw Stock Exchange or BondSpot SA within the framework of the Catalyst system.

On 13 October 2017, KNF approved the prospectus prepared in connection with the public offerings and the pursuit of admission and introduction of the bonds issued under the Program into trading on the regulated market. On the basis of the prospectus, Alior Bank may issue both common and subordinated bonds.

Alior Bank's Supervisory Board, in accordance with a motion submitted by Alior Bank's Management Board, also agreed to discontinue the issue of bonds under the existing Alior Bank SA's Public Subordinated Bond Issue Program established by a resolution adopted by the Alior Bank Management Board on 22 December 2015 and approved by a resolution adopted by the Alior Bank Supervisory Board on 28 December 2015 and to close the program.

24.5 KNF Office's audit in PZU Życie

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

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

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

24.6 Situation in Ukraine

In the period of the 9 months ended 30 September 2017, despite the increasingly noticeable signs of improvement in the economic situation and stabilization of the political situation in Ukraine, the insurance market continued to operate in challenging circumstances stemming from the country's weak economy, low client involvement, barriers to the transfer of goods and services through the Eastern border and limitations in the liquidity of the banking system. The market continued to be characterized by a high level of expenses associated with sales of insurance products. The liquidity problems affecting a portion of the banking system and linked insurance companies resulted in the deterioration of trust among the population. The cyber-attack of a computer virus named "Pety.A", which in June 2017 impacted numerous state institutions and private businesses, also in the insurance sector, became a great challenge for the Ukrainian economy. The effects of the attack can still be felt and businesses still incur the costs related to the liquidation of effects and protection against further attacks. In time, the costs may reach several billions of dollars, on top of the business and political consequences that have not been mentioned, such as loss of trust of investors following the theft of sensitive data.

Despite these circumstances, PZU Ukraine and PZU Ukraine Life, by diversifying their portfolios and sales channels, were able to respond with flexibility to market changes and fulfillment of their respective sales plans was 97% and 119%.

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

24.7 Tax Group Agreement

The tax group agreement for fiscal years 2018-2020 was signed on 20 September 2017. According to the agreement, the tax group will be formed by PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., PZU Zdrowie SA, PZU Finanse sp. z o.o., PZU LAB SA, Ipsilon sp. z o.o., Omicron Bis SA, Tulare Investments Sp. z o.o, Battersby Investments SA.

According to the agreement, the new tax group will not include TFI PZU and PZU Asset Management SA, which previously comprised the Tax Group established for the period of 2015 to 2017.

(in thousands of PLN)

Quarterly standalone financial information of PZU (in accordance with PAS)

1. Interim balance sheet

ASSETS	30 September 2017	30 June 2017	31 December 2016	30 September 2016
I. Intangible assets, including:	**345,481**	**352,784**	**377,535**	**357,450**
- goodwill	-	-	-	-
II. Investments	**35,687,254**	**34,400,625**	**31,465,734**	**32,999,235**
1. Real properties	373,367	378,995	387,790	445,969
2. Investments in subordinated entities, including:	16,034,060	14,861,672 [1)]	9,653,231 [1)]	8,997,868
- investments in subordinated entities measured by the equity method	15 34,374	14,861,672 [1)]	9,263,810 [1)]	8,997,868
3. Other financial investments	19,279,827	19,159,958	21,424,713	23,555,398
4. Deposit receivables from ceding companies	-	-	-	-
III. Net assets in life insurance where the investment risk is borne by the policyholder	**-**	**-**	**-**	**-**
IV. Receivables	**4,077,925**	**4,337,584**	**2,252,438**	**2,864,964**
1. Receivables on direct insurance	1,672,712	1,801,517	1,752,142	1,541,587
1.1. From subordinated entities	2,174	1,016	3,318	777
1.2. From other entities	1,670,538	1,800,501	1,748,824	1,540,810
2. Reinsurance receivables	185,877	152,404	130,137	106,738
2.1. From subordinated entities	132,955	82,806	62,733	53,712
2.2. From other entities	52,922	69,598	67,404	53,026
3. Other receivables	2,219,336	2,383,663	370,159	1,216,639
3.1. Receivables from the state budget	33,886	33,493	11,486	12,639
3.2. Other receivables	2,185,450	2,350,170	358,673	1,204,000
a) from subordinated entities	1,497,750	1,929,145	74,683	870,290
b) from other entities	687,700	421,025	283,990	333,710
V. Other assets	**714,733**	**1,367,896**	**1,272,661**	**177,192**
1. Property, plant and equipment	105,587	111,523	124,630	114,683
2. Cash	609,146	1,256,373	1,148,031	62,509
3. Other assets	-	-	-	-
VI. Accruals and deferred income	**2,045,413**	**2,433,155**	**2,039,415**	**1,709,220**
1. Deferred tax assets	-	-	-	-
2. Capitalized acquisition expenses	1,291,517	1,350,337	1,208,626	1,065,860
3. Posted interest and rents	-	-	-	-
4. Other prepayments and accruals	753,896	1,082,818	830,789	643,360
VII. Unpaid share capital	**-**	**-**	**-**	**-**
VIII. Treasury shares	**-**	**-**	**-**	**-**
Total assets	**42,870,806**	**42,892,044**	**37,407,783**	**38,108,061**

[1)] Data restated because of the final settlement of the acquisition of Bank BPH's Core Business by Alior Bank. More information on this matter is presented in item 10.

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2017	30 June 2017	31 December 2016	30 September 2016
I. Equity	**13,061,540**	**12,352,998**	**12,208,165**	**11,611,277**
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	5,258,442	5,258,394	4,889,182	4,889,083
3. Revaluation reserve	5,568,157	4,906,933 [1)]	5,639,680	5,636,089
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses)	-	-	-	-
6. Net profit (loss)	2,148,589	2,101,319	1,592,951	999,753
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated debt	**2,264,217**	**2,243,912**	**-**	**-**
III. Technical provisions	**20,978,899**	**21,131,847**	**19,740,609**	**19,208,750**
IV. Reinsurers' share in technical provisions (negative figure)	**(970,762)**	**(1,048,175)**	**(921,520)**	**(889,911)**
V. Estimated salvage and subrogation (negative figure)	**(111,549)**	**(104,142)**	**(104,300)**	**(101,432)**
1. Gross estimated salvage and subrogation	(112,651)	(105,101)	(105,242)	(102,073)
2. Reinsurers' share in estimated salvage and subrogation	1,102	959	942	641
VI. Other provisions	**513,778**	**568,896**	**385,844**	**541,703**
1. Provisions for pension benefits and other compulsory employee benefits	44,655	55,498	44,131	51,542
2. Deferred tax liability	365,539	396,349	271,943	401,615
3. Other provisions	103,584	117,049	69,770	88,546
VII. Liabilities for reinsurers' deposits	**-**	**-**	**-**	**-**
VIII. Other liabilities and special-purpose funds	**6,389,428**	**6,883,441**	**5,156,199**	**7,028,914**
1. Liabilities on direct insurance	369,102	371,977	461,809	390,330
1.1. To subordinated entities	1,125	2,970	3,820	445
1.2. To other entities	367,977	369,007	457,989	389,885
2. Reinsurance liabilities	110,804	190,098	117,534	100,063
2.1. To subordinated entities	8,379	6,328	2,793	15,706
2.2. To other entities	102,425	183,770	114,741	84,357
3. Liabilities on the issue of own debt securities and drawn loans	3,660,828	3,575,680	3,764,983	3,904,362
4. Liabilities to credit institutions	198,768	58,408	-	81,707
5. Other liabilities	1,916,406	2,549,138	694,859	2,425,125
5.1. Liabilities to the state budget	139,048	68,918	232,498	68,324
5.2. Other liabilities	1,777,358	2,480,220	462,361	2,356,801
a) to subordinated entities	20,858	9,712	10,715	6,585
b) to other entities	1,756,500	2,470,508	451,646	2,350,216
6. Special-purpose funds	133,520	138,140	117,014	127,327
IX. Accruals and deferred income	**745,255**	**863,267**	**942,786**	**708,760**
1. Accrued expenses	706,941	818,699	904,276	669,122
2. Negative goodwill	-	-	-	-
3. Deferred income	38,314	44,568	38,510	39,638
Total equity and liabilities	**42,870,806**	**42,892,044**	**37,407,783**	**38,108,061**

[1)] data restated because of the final settlement of the acquisition of Bank BPH's Core Business by Alior Bank. This subject is described in more detail in item 10.

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2017	30 June 2017	31 December 2016	30 September 2016
Book value	13,061,540	12,352,998	12,208,165	11,611,277
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	15.13	14.31	14.14	13.45
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	15.13	14.31	14.14	13.45

2. Interim statement of off-balance sheet line items

Off-balance sheet items	30 September 2017	30 June 2017	31 December 2016	30 September 2016
1. Contingent receivables, including:	**4,585,335**	**4,422,756**	**4,357,144**	**9,353,299**
1.1. Guarantees and sureties received	2,227	2,410	1,957	19,230
1.2. Other [1)]	4,583,108	4,420,346	4,355,187	9,334,069
2. Contingent liabilities, including:	**4,616,712**	**4,761,967**	**4,690,077**	**4,579,813**
2.1. Guarantees and sureties given	3,678,517	3,644,733	3,790,755	3,682,603
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	781,344	946,673	592,513	-
3. Reinsurance collateral instituted in favor of the insurance undertaking	**-**	**-**	**-**	**-**
4. Reinsurance collateral instituted by the insurance undertaking in favor of ceding companies	**-**	**-**	**-**	**-**
5. Third party assets not recognized in assets	**116,005**	**116,005**	**117,710**	**122,003**
6. Other off-balance sheet line items	**-**	**-**	**-**	**-**
Total off-balance sheet line items	**9,318,052**	**9,300,728**	**9,164,931**	**14,055,115**

[1)] This item includes predominantly: bills of exchange issued on account of granted bank guarantees, other bills of exchange, collateral received in the form of a transfer of ownership of the debtor's assets, mortgage on the debtor's assets, other contingent receivables, etc.

(in thousands of PLN)

3. Interim technical non-life insurance account

Technical non-life insurance account	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
I. Premium income (1-2-3+4)	**2,928,108**	**8,235,481**	**2,480,304**	**6,784,060**
1. Gross written premium	2,535,059	9,241,171	2,364,229	7,621,793
2. Reinsurers' share in the gross written premium	(12,254)	254,673	56,019	158,794
3. Movement in the provision for unearned premiums and provision for gross unexpired risks	(509,466)	681,807	(204,973)	612,687
4. Reinsurers' share in the movement in the provision for unearned premiums	(128,671)	(69,210)	(32,879)	(66,252)
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	**62,297**	**189,262**	**63,340**	**182,038**
III. Other net technical income	**56,303**	**179,724**	**20,037**	**80,169**
IV. Claims and benefits (1+2)	**2,143,233**	**5,403,141**	**1,782,513**	**4,614,773**
1. Net claims paid	1,844,067	4,973,471	1,586,071	4,616,331
1.1. Gross claims paid	1,946,260	5,154,924	1,619,227	4,765,812
1.2. Reinsurers' share in claims paid	102,193	181,453	33,156	149,481
2. Movement in the net provision for outstanding claims	299,166	429,670	196,442	(1,558)
2.1. Movement in the gross provision for outstanding claims	360,287	541,364	159,842	(82,873)
2.2. Reinsurers' share in the movement in the provision for outstanding claims	61,121	111,694	(36,600)	(81,315)
V. Movement in other net technical provisions	**-**	**-**	**-**	**-**
1. Movement in other gross technical provisions	-	-	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-	-	-
VI. Net bonuses and discounts including movement in provisions	**(498)**	**2,064**	**(755)**	**(138)**
VII. Insurance activity expenses	**699,919**	**2,036,483**	**642,626**	**1,842,832**
1. Acquisition expenses, including:	542,176	1,571,724	473,576	1,345,205
- movement in capitalized acquisition expenses	58,820	(82,890)	24,886	(108,680)
2. Administrative expenses	158,328	479,158	168,820	502,052
3. Reinsurance commissions and profit-sharing	585	14,399	(230)	4,425
VIII. Other net technical expenses	**93,347**	**313,454**	**68,171**	**255,435**
IX. Movement in loss ratio (risk) equalization provisions	**-**	**-**	**-**	**-**
X. Technical result of non-life insurance	**110,707**	**849,325**	**71,126**	**333,365**

(in thousands of PLN)

4. Interim non-technical profit and loss account

Non-technical profit and loss account	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
I. Technical result of non-life insurance or life insurance	**110,707**	**849,325**	**71,126**	**333,365**
II. Investment income	**286,021**	**2,279,071**	**124,416**	**1,562,511**
1. Investment income on real estate	1,726	4,582	1,533	4,143
2. Investment income from subordinated entities	2,171	1,472,543	(647)	847,838
2.1. On ownership interests or shares	-	1,469,407	(1)	844,150
2.2. on loans and debt securities	2,167	3,132	(646)	3,688
2.3. on other investments	4	4	-	-
3. Other financial investment income	173,837	335,194	9,298	237,317
3.1. on ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	2,379	7,881	4,715	11,106
3.2. on debt securities and other fixed income securities	152,868	330,229	47,577	208,967
3.3. on term deposits in credit institutions	2,142	(3,950)	(39,518)	(12,463)
3.4. on other investments	16,448	1,034	(3,476)	29,707
4. Gain on revaluation of investments	(1)	1,216	2,045	2,183
5. Gain on realization of investments	108,288	465,536	112,187	471,030
III. Unrealized investment gains	**(12,948)**	**201,576**	**(23,825)**	**245,150**
IV. Net investment income after including costs transferred from the technical life insurance account	**-**	**-**	**-**	**-**
V. Investment activity expenses	**106,158**	**411,727**	**115,358**	**406,353**
1. Real estate maintenance expenses	883	3,158	1,049	4,040
2. Other investment activity expenses	3,077	8,704	3,462	9,258
3. Loss on revaluation of investments	1,566	1,799	1,426	1,434
4. Loss on realization of investments	100,632	398,066	109,421	391,621
VI. Unrealized investment losses	**(9,034)**	**153,755**	**(34,757)**	**228,470**
VII. Net investment income after including costs transferred to the technical non-life insurance account	**62,297**	**189,262**	**63,340**	**182,038**
VIII. Other operating income	**50,773**	**344,917**	**62,904**	**219,584**
IX. Other operating expenses	**196,076**	**559,372**	**25,027**	**417,749**
X. Operating profit (loss)	**79,056**	**2,360,773**	**65,653**	**1,126,000**
XI. Extraordinary gains	**-**	**-**	**-**	**-**
XII. Extraordinary losses	**-**	**-**	**-**	**-**
XIII. Share of the net profit (loss) of subordinated entities measured by the equity method	**3,778**	**(5,709)**	**(31,864)**	**(37,882)**
XIV. Profit (loss) before tax	**82,834**	**2,355,064**	**33,789**	**1,088,118**
XV. Income tax	**35,564**	**206,475**	**24,372**	**88,365**
a) current part	79,528	140,459	32,205	29,072
b) deferred part	(43,964)	66,016	(7,833)	59,293
XVI. Other compulsory reductions in profit (increases in losses)	**-**	**-**	**-**	**-**
XVII. Net profit (loss)	**47,270**	**2,148,589**	**9,417**	**999,753**

(in thousands of PLN)

	1 July - 30 September 2017	1 January – 30 September 2017	1 July - 30 September 2016	1 January – 30 September 2016
Net profit (loss) (annualized) [1]	187,539	2,872,656	37,463	1,335,436
Weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [1]	0.05	2.49	0.01	1.55
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) [1]	0.05	2.49	0.01	1.55

[1] 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 2017	1 January – 31 December 2016	1 January – 30 September 2016
I. Equity at the beginning of the period (Opening Balance)	**12,208,165**	**12,378,733**	**12,378,733**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after reconciliation with comparative data	**12,208,165**	**12,378,733**	**12,378,733**
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	**4,889,182**	**4,446,348**	**4,446,348**
2.1. Change in supplementary capital	369,260	442,834	442,735
a) increases (by virtue of):	369,260	442,834	442,735
- distribution of profit (above the statutorily required amount)	369,019	442,395	442,395
- from revaluation reserve – by sale and liquidation of fixed assets	241	439	340
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	**5,258,442**	**4,889,182**	**4,889,083**
3. Revaluation reserve at the beginning of the period	**5,639,680**	**5,597,511**	**5,597,511**
- changes in the accepted accounting principles (policy)	-	-	-
3.1. Change in the revaluation reserve	(71,523)	42,169	38,578
a) increases (by virtue of):	393,487	773,351	231,036
- valuation of financial investments	392,463	762,121 [1]	231,036
- transfer of the impairment charges on investments available for sale	-	1,142	-
- increases by virtue of the disposal of instruments available for sale	1,024	10,088	-
b) decreases (by virtue of)	465,010	731,182	192,458
- valuation of financial investments	415,554	128,219	192,106
- decreases by virtue of the disposal of instruments available for sale	49,215	602,512	-
- sale of fixed assets	241	439	340
- other reductions, including recognition of impairment charges for real estate	-	12	12
3.2. Revaluation reserve at the end of the period	**5,568,157**	**5,639,680**	**5,636,089**

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2017	1 January – 31 December 2016	1 January – 30 September 2016
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	**1,592,951**	**2,248,522**	**2,248,522**
5.1. Retained earnings at the beginning of the period	**1,592,951**	**2,248,522**	**2,248,522**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.2. Retained earnings at the beginning of the period, after reconciliation with comparative data	**1,592,951**	**2,248,522**	**2,248,522**
a) increases	-	-	-
b) decreases	1,592,951	2,248,522	2,248,522
- transfers to supplementary capital	369,019	442,395	442,395
- dividend payment	1,208,932	1,796,127	1,796,127
- transfers/charges to the Company Social Benefit Fund	15,000	10,000	10,000
5.3. Retained earnings at the end of the period	**-**	**-**	**-**
5.4. Retained losses at the beginning of the period	**-**	**-**	**-**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after reconciliation with comparative data	**-**	**-**	**-**
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	**-**	**-**	**-**
5.7. Retained earnings (losses) at the end of the period	**-**	**-**	**-**
6. Net result	**2,148,589**	**1,592,951**	**999,753**
a) net profit	2,148,589	1,592,951	999,753
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	**13,061,540**	**12,208,165**	**11,611,277**

[1] Data restated because of the final settlement of the acquisition of Bank BPH's Core Business by Alior Bank. More information on this matter is presented in item 10.

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 30 September 2017	1 January – 31 December 2016	1 January – 30 September 2016
A. Cash flow on operating activity			
I. Proceeds	**10,298,539**	**11,457,632**	**8,336,065**
1. Proceeds on direct activity and inward reinsurance	**9,441,842**	**10,596,634**	**7,761,344**
1.1. Proceeds on gross premiums	9,340,201	10,464,366	7,656,892
1.2. Proceeds on subrogation, salvage and claim refunds	85,867	106,806	83,099
1.3. Other proceeds on direct activity	15,774	25,462	21,353
2. Proceeds on outward reinsurance	**302,775**	**202,449**	**138,578**
2.1. Payments received from reinsurers for their share of claims paid	258,856	176,938	121,161
2.2. Proceeds on reinsurance commissions and profit-sharing	43,333	23,588	15,496
2.3. Other proceeds on outward reinsurance	586	1,923	1,921
3. Proceeds on other operating activity	**553,922**	**658,549**	**436,143**
3.1. Proceeds for acting as an emergency adjuster	231,330	260,448	195,830
3.2. Sale of intangible assets and property, plant and equipment other than investments	1,562	2,976	1,845
3.3. Other proceeds	321,030	395,125	238,468
II. Expenditures	**9,087,145**	**10,735,148**	**7,948,532**
1. Expenditures on direct activity and inward reinsurance	**7,454,370**	**9,067,091**	**6,753,056**
1.1. Gross premium refunds	185,421	167,887	120,594
1.2. Gross claims paid	4,468,178	5,544,953	4,132,193
1.3. Acquisition expenditures	1,157,679	1,353,987	1,024,546
1.4. Administrative expenditures	1,087,152	1,385,079	1,034,415
1.5. Expenditures for claims handling and pursuit of subrogation	193,014	248,028	182,144
1.6. Commissions paid and profit-sharing on inward reinsurance	248,719	236,211	154,013
1.7. Other expenditures on direct activity and inward reinsurance	114,207	130,946	105,151
2. Expenditures on outward reinsurance	**353,110**	**300,481**	**228,379**
2.1. Premiums paid for reinsurance	352,937	300,227	228,155
2.2. Other expenditures on outward reinsurance	173	254	224
3. Expenditures on other operating activity	**1,279,665**	**1,367,576**	**967,097**
3.1. Expenditures for acting as an emergency adjuster	425,683	510,018	379,697
3.2. Purchase of intangible assets and property, plant and equipment other than investments	59,455	117,167	93,191
3.3. Other operating expenditures	794,527	740,391	494,209
III. Net cash flow on operating activity (I-II)	**1,211,394**	**722,484**	**387,533**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2017	1 January – 31 December 2016	1 January – 30 September 2016
B. Cash flow on investing activity			
I. Proceeds	**193,564,464**	**239,677,792**	**185,016,935**
1. Sale of real estate	20,706	53,784	51,813
2. Sale of ownership interests and shares in subordinated entities	-	180	180
3. Sale of ownership interests, shares in other entities and participation units and investment certificates in mutual funds	283,084	1,051,223	4,360
4. Realization of debt securities issued by subordinated entities and amortization of the loans granted to these entities	42,435	-	-
5. Realization of debt securities issued by other entities	54,584,756	9,804,544	5,633,397
6. Liquidation of term deposits in credit institutions	40,588,208	184,625,108	150,732,031
7. Realization of other investments	97,227,197	42,992,101	28,384,916
8. Proceeds from real estate	5,823	7,472	5,551
9. Interest received	302,788	284,925	174,979
10. Dividends received	495,712	844,176	19,176
11. Other investment proceeds	13,755	14,279	10,532
II. Expenditures	**197,657,700**	**237,505,872**	**185,693,269**
1. Purchase of real estate	393	-	-
2. Purchase of ownership interests and shares in subordinated entities	7,062,219	1,197,996	1,197,996
3. Purchase of ownership interests, shares in other entities and participation units and investment certificates in mutual funds	73,326	35,850	25,850
4. Purchase of debt securities issued by subordinated entities and extension of loans to these entities	-	150,000	70,000
5. Purchase of debt securities issued by other entities	53,219,711	8,786,060	4,949,489
6. Purchase of term deposits in credit institutions	40,137,060	184,138,646	151,153,219
7. Purchase of other investments	97,127,652	43,149,288	28,260,109
8. Expenditures for the maintenance of properties	34,310	46,722	35,709
9. Other expenditures for investments	3,029	1,310	897
III. Net cash flow on investing activity (I-II)	**(4,093,236)**	**2,171,920**	**(676,334)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2017	1 January – 31 December 2016	1 January – 30 September 2016
C. Cash flow on financing activity			
I. Proceeds	**49,129,193**	**7,133,567**	**4,415,750**
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans and borrowings and issues of debt securities	49,129,193	7,133,567	4,415,750
3. Other financial proceeds	-	-	-
II. Expenditures	**46,739,024**	**8,977,917**	**4,131,238**
1. Dividends	-	1,796,162	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Repurchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	46,688,233	7,134,630	4,084,131
5. Interest on loans and borrowings and issued debt securities	50,791	47,125	47,107
6. Other financial expenditures	-	-	-
III. Net cash flow on financing activity (I-II)	**2,390,169**	**(1,844,350)**	**284,512**
D. Total net cash flow (A.III+/-B.III+/-C.III)	**(491,673)**	**1,050,054**	**(4,289)**
E. Balance sheet change in cash, including:	**(538,885)**	**1,082,955**	**(2,567)**
- movement in cash due to foreign exchange differences	(47,212)	32,901	1,722
F. Cash at the beginning of the period	**1,148,031**	**65,076**	**65,076**
G. Cash at the end of the period (F+/-E), including:	**609,146**	**1,148,031**	**62,509**
- restricted cash	43,272	43,272	57,476

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 2016.

9. Changes in accounting principles (policy)

No changes were made to the accounting principles (policy) in the 9-month period ended 30 September 2017.

(in thousands of PLN)

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

In connection with the completion of the final settlement process relating to the purchase of Bank BPH's Core Business by Alior Bank, a retroactive restatement of data as at 30 June 2017 and 31 December 2016 has been performed. The impact of this change is presented below.

Items of the Balance sheet	**30 June 2017** *(historical)*	**Adjust-ment**	**30 June 2017** *(restated)*	**31 December 2016** *(historical)*	**Adjust-ment**	**31 December 2016** *(restated)*
II.2. Investments – investments in subordinated entities	14,865,874	(4,202)	14,861,672	9,664,078	(10,847)	9,653,231
II.2. Investments – investments in subordinated entities measured by the equity method	14,865,874	(4,202)	14,861,672	9,274,657	(10,847)	9,263,810
I.3. Revaluation reserve	4,911,135	(4,202)	4,906,933	5,650,527	(10,847)	5,639,680

Items of the Statement of changes in equity	**1 January – 31 December 2016** *(historical)*	**Adjust-ment**	**1 January – 31 December 2016** *(restated)*
I.3.1.a) Change in the revaluation reserve – measurement of financial investments	772,968	(10,847)	762,121
I.3.2. Revaluation reserve at the end of the period	5,650,527	(10,847)	5,639,680

Signatures of the PZU Management Board Members:

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

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

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

Warsaw, 15 November 2017