Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 6 months ended
30 June 2018

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Introduction

Compliance statement

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

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the PZU Group for 2017.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 6 months from 1 January to 30 June 2018.

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

Functional and presentation currency

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

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

FX rates

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

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

Currency	1 January – 30 June 2018	1 January – 30 June 2017	30 June 2018	31 December 2017
Euro	4.2395	4.2474	4.3616	4.1709
British pound	4.8179	n/a	4.9270	4.7001
Ukrainian hryvnia	0.1324	0.1459	0.1423	0.1236

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 6-month period ended 30 June 2018, the PZU Group companies did not discontinue any significant type of activity.

Business seasonality or cyclicity

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

EMC – EMC Instytut Medyczny SA.

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

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.

Pekao Group – Pekao with its subsidiaries: Pekao Bank Hipoteczny SA, Centralny Dom Maklerski Pekao SA, Pekao Leasing sp. z o.o., Pekao Investment Banking SA, Pekao Faktoring sp. z o.o., Pekao PTE in liquidation, Pekao TFI, Centrum Kart SA, Pekao Financial Services sp. z o.o., Centrum Bankowości Bezpośredniej sp. z o.o., Pekao Property SA, FPB – Media sp. z o.o., Pekao Fundusz Kapitałowy sp. z o.o. in liquidation, PIM, Xelion.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

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

Pekao – Bank Pekao SA.

Pekao DFE – Pekao Dobrowolny Fundusz Emerytalny.

Pekao OFE – Pekao Otwarty Fundusz Emerytalny.

Pekao PTE – Pekao Powszechne Towarzystwo Emerytalne SA in liquidation (formerly Pekao Pioneer Powszechne Towarzystwo Emerytalne SA).

Pekao TFI – Pekao Towarzystwo Funduszy Inwestycyjnych SA (formerly Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA).

PFR – Polski Fundusz Rozwoju SA.

PFS – Pekao Financial Services sp. z o.o.

PIM – Pekao Investment Management SA (formerly Pioneer Pekao Investment Management SA).

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji SA.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

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.

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

PZU's 2017 standalone financial statements – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2017 prepared in accordance with PAS, signed by the PZU Management Board on 14 March 2018.

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2018.

NBP – National Bank of Poland;

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

PAS – Accounting Act and regulations issued thereunder.

IASB – International Accounting Standards Board.

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

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2017, signed by the PZU Management Board on 14 March 2018.

KNF Office – Office of the Polish Financial Supervision Authority.

BGF Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated text: Journal of Laws of 2017, item 1937, as amended).

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated text: Journal of Laws of 2018, item 999, as amended).

Accounting Act – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2018, item 395, as amended).

ZUS – Social Insurance Institution.

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017 (restated)[1)]	1 January – 30 June 2017 (restated) [1)]
Gross written premiums	6.1	6,050	11,881	5,838	11,606
Reinsurers' share in gross written premium		(285)	(336)	(214)	(307)
Net written premiums		**5,765**	**11,545**	**5,624**	**11,299**
Movement in net provision for unearned premiums		(169)	(491)	(349)	(952)
Net earned premium		**5,596**	**11,054**	**5,275**	**10,347**
Revenue from commissions and fees	6.2	848	1,673	453	699
Net investment income	6.3	2,663	5,594	1,916	3,282
Net result on realization of financial instruments and investments	6.4	33	99	228	238
Movement in allowances for expected credit losses and impairment losses on financial instruments	6.5	(403)	(838)	(316)	(539)
Net movement in fair value of assets and liabilities measured at fair value	6.6	476	401	(473)	46
Other operating income	6.7	310	800	251	530
Claims, benefits and movement in technical provisions		(3,773)	(7,504)	(3,587)	(7,379)
Reinsurers' share in claims, benefits and movement in technical provisions		54	159	83	165
Net insurance claims and benefits paid	**6.8**	**(3,719)**	**(7,345)**	**(3,504)**	**(7,214)**
Fee and commission expenses	6.9	(182)	(353)	(112)	(189)
Interest expenses	6.10	(499)	(992)	(250)	(420)
Acquisition expenses	6.11	(768)	(1,519)	(718)	(1,412)
Administrative expenses	6.11	(1,727)	(3,342)	(1,174)	(2,036)
Other operating expenses	6.12	(895)	(2,086)	(657)	(1,175)
Operating profit		**1,733**	**3,146**	**919**	**2,157**
Share of the net financial results of entities measured by the equity method		1	1	(1)	(1)
Profit before tax		**1,734**	**3,147**	**918**	**2,156**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017 (restated)[1)]	1 January – 30 June 2017 (restated) [1)]
Income tax	6.14	(430)	(789)	(200)	(451)
Net profit, including:		**1,304**	**2,358**	**718**	**1,705**
- profit attributable to the equity holders of the Parent Company		782	1,425	504	1,438
- profit (loss) attributed to holders of non-controlling interest		522	933	214	267
Weighted average basic and diluted number of common shares	6.13	863,374,918	863,442,942	863,521,269	863,516,697
Basic and diluted profit (loss) per common share (in PLN)	6.13	0.91	1.65	0.58	1.67

[1)] Information on restatement of data for the period from 1 January to 30 June 2017 is presented in section 3.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	**Note**	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017** (restated)[1]	**1 January – 30 June 2017** (restated) [1]
Net profit		1,304	2,358	718	1,705
Other comprehensive income	6.14	(105)	(40)	(3)	4
Subject to subsequent transfer to profit or loss		35	192	(4)	3
Debt instruments measured at fair value through other comprehensive income		(4)	134	n/a	n/a
Measurement of financial instruments available for sale		n/a	n/a	(13)	43
Foreign exchange translation differences		45	56	1	(53)
Cash flow hedging		(6)	2	8	13
Not to be reclassified to profit or loss in the future		(140)	(232)	1	1
Equity instruments measured at fair value through other comprehensive income		(139)	(234)	n/a	n/a
Reclassification of real property from property, plant and equipment to investment property		(1)	2	1	1
Total net comprehensive income		**1,199**	**2,318**	**715**	**1,709**
- comprehensive income attributable to equity holders of the Parent Company		491	1,324	490	1,411
- comprehensive income attributed to holders of non-controlling interest		708	994	225	298

[1] Information on restatement of data for the period from 1 January to 30 June 2017 is presented in section 3.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	**Note**	**30 June 2018**	**31 December 2017** (restated) [1]	**1 January 2017** (restated) [1]
Goodwill	6.15	3,864	3,830	1,583
Intangible assets	6.16	3,239	3,443	1,463
Other assets	6.17	613	692	866
Deferred acquisition expenses		1,541	1,485	1,407
Reinsurers' share in technical provisions	6.26	1,354	1,250	990
Property, plant and equipment	6.18	3,137	3,287	1,467
Investment property		1,856	2,355	1,738
Entities measured by the equity method		17	20	37
Loan receivables from clients	6.19	173,651	169,457	44,998
Financial derivatives	6.20	2,279	2,351	953
Investment financial assets	6.21	105,910	110,046	59,335
Measured at amortized cost		43,512	n/a	n/a
Measured at fair value through other comprehensive income		42,089	n/a	n/a
Measured at fair value through profit or loss		20,309	n/a	n/a
Held to maturity		n/a	21,237	17,346
Available for sale		n/a	48,519	11,652
Measured at fair value through profit or loss		n/a	20,243	21,001
Loans		n/a	20,047	9,336
Deferred tax assets		2,049	1,590	641
Receivables	6.23	9,832	9,096	5,664
Cash and cash equivalents		11,505	8,239	2,973
Assets held for sale	6.25	964	317	1,189
Total assets		**321,811**	**317,458**	**125,304**

[1] Information on restatement of data as at 31 December 2017 and 1 January 2017 is presented in section 3.2.

Equity and liabilities	**Note**	**30 June 2018**	**31 December 2017** (restated) [1]	**1 January 2017** (restated) [1]
Equity				
Equity attributable to equity holders of the parent		13,280	14,599	12,990
Share capital		86	86	86
Other capital		12,610	11,917	10,869
Retained earnings		584	2,596	2,035
Retained earnings		(841)	(299)	100
Net profit		1,425	2,895	1,935
Non-controlling interest		21,332	22,961	4,067
Total equity		**34,612**	**37,560**	**17,057**
Liabilities				
Technical provisions	6.26	45,583	44,558	42,194
Provisions for employee benefits		573	556	128
Other provisions	6.27	644	497	367
Deferred tax liability		622	638	469
Financial liabilities	6.28	225,470	224,550	60,045
Other liabilities	6.29	14,305	9,096	5,011
Liabilities related directly to assets classified as held for sale	6.25	2	3	33
Total liabilities		**287,199**	**279,898**	**108,247**
Total equity and liabilities		**321,811**	**317,458**	**125,304**

[1] Information on restatement of data as at 31 December 2017 and 1 January 2017 is presented in section 3.2.

(in millions of PLN)

4. Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2018	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,596**	**-**	**14,599**	**22,961**	**37,560**
Effect of the application of IFRS 9 and other changes	-	-	-	7	-	-	-	(461)	-	(454)	(1,042)	(1,496)
As at 1 January 2018 after the changes in accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,135**	**-**	**14,145**	**21,919**	**36,064**
Equity instruments measured at fair value through other comprehensive income	-	-	-	(189)	-	-	-	-	-	(189)	(45)	(234)
Debt instruments measured at fair value through other comprehensive income	-	-	-	26	-	-	-	-	-	26	108	134
Cash flow hedging	-	-	-	3	-	-	-	-	-	3	(1)	2
Foreign exchange translation differences	-	-	-	-	-	-	57	-	-	57	(1)	56
Reclassification of property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**(158)**	**-**	**-**	**57**	**-**	**-**	**(101)**	**61**	**(40)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,425	1,425	933	2,358
Total comprehensive income	**-**	**-**	**-**	**(158)**	**-**	**-**	**57**	**-**	**1,425**	**1,324**	**994**	**2,318**
Other changes, including:	**-**	**(10)**	**789**	**(6)**	**14**	**-**	**-**	**(2,976)**	**-**	**(2,189)**	**(1,581)**	**(3,770)**
Distribution of financial result	-	-	804	-	14	-	-	(2,976)	-	(2,158)	(1,659)	(3,817)
Transactions on treasury shares	-	(10)	-	-	-	-	-	-	-	(10)	-	(10)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	78	59
Sale of revalued property and other	-	-	4	(6)	-	-	-	-	-	(2)	-	(2)
As at 30 June 2018	**86**	**(10)**	**12,613**	**-**	**19**	**4**	**(16)**	**(841)**	**1,425**	**13,280**	**21,332**	**34,612**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		**Total**		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Adjustment to the opening balance	-	-	-	-	-	-	-	(8)	-	(8)	(19)	(27)
Balance as at 1 January 2017 after adjustment	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,035**	**-**	**12,990**	**4,067**	**17,057**
Measurement of financial instruments available for sale	-	-	-	53	-	-	-	-	-	53	64	117
Cash flow hedging	-	-	-	2	-	-	-	-	-	2	9	11
Foreign exchange translation differences	-	-	-	-	-	-	(71)	-	-	(71)	-	(71)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	1	-	-	-	1	6	7
Reclassification of property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**-**	**(13)**	**79**	**66**
Net profit (loss)	-	-	-	-	-	-	-	-	2,895	2,895	1,290	4,185
Total comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**2,895**	**2,882**	**1,369**	**4,251**
Other changes, including:	**-**	**1**	**1,066**	**(6)**	**-**	**-**	**-**	**(2,334)**	**-**	**(1,273)**	**17,525**	**16,252**
Distribution of financial result	-	-	1,125	-	-	-	-	(2,334)	-	(1,209)	-	(1,209)
Acquisition of shares in Pekao	-	-	-	-	-	-	-	-	-	-	17,711	17,711
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(65)	-	-	-	-	-	-	(65)	(186)	(251)
Sale of revalued real estate	-	-	6	(6)	-	-	-	-	-	-	-	-
As at 31 December 2017	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**(299)**	**2,895**	**14,599**	**22,961**	**37,560**

[1] Information on restatement of data for the period from 1 January to 31 December 2017 is presented in section 3.2.

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Adjustment to the opening balance	-	-	-	-	-	-	-	(8)	-	(8)	(19)	(27)
Balance as at 1 January 2017 after adjustment	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,035**	**-**	**12,990**	**4,067**	**17,057**
Measurement of financial instruments available for sale	-	-	-	22	-	-	-	-	-	22	21	43
Cash flow hedging	-	-	-	3	-	-	-	-	-	3	10	13
Foreign exchange translation differences	-	-	-	-	-	-	(53)	-	-	(53)	-	(53)
Reclassification of property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total net other comprehensive income	**-**	**-**	**-**	**26**	**-**	**-**	**(53)**	**-**	**-**	**(27)**	**31**	**4**
Net profit (loss)	-	-	-	-	-	-	-	-	1,438	1,438	267	1,705
Total comprehensive income	**-**	**-**	**-**	**26**	**-**	**-**	**(53)**	**-**	**1,438**	**1,411**	**298**	**1,709**
Other changes, including:	**-**	**1**	**1,069**	**(4)**	**-**	**-**	**-**	**(2,330)**	**-**	**(1,264)**	**17,595**	**16,331**
Distribution of financial result	-	-	1,122	-	-	-	-	(2,330)	-	(1,208)	-	(1,208)
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Acquisition of shares in Pekao	-	-	-	-	-	-	-	-	-	-	17,711	17,711
Transactions with holders of non-controlling interests	-	-	(57)	-	-	-	-	-	-	(57)	(116)	(173)
Sale of revalued real estate	-	-	4	(4)	-	-	-	-	-	-	-	-
As at 30 June 2017	**86**	**-**	**11,827**	**128**	**5**	**3**	**(55)**	**(295)**	**1,438**	**13,137**	**21,960**	**35,097**

[1] Information on restatement of data for the period from 1 January to 30 June 2017 is presented in section 3.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	**1 January – 30 June 2018**	**1 January – 30 June 2017** (restated) [1)]
Profit before tax	3,147	2,156
Adjustments	(7,983)	815
Movement in loan receivables from clients	(6,872)	(1,012)
Movement in liabilities under deposits	(753)	2,377
Movement in the valuation of assets measured at fair value	(401)	(66)
Interest income and expenses	(1,133)	(722)
Realized gains/losses from investing activities and impairment losses	715	301
Net foreign exchange differences	44	(358)
Movement in deferred acquisition expenses	(56)	(66)
Amortization of intangible assets and depreciation of property, plant and equipment	538	294
Movement in the reinsurers' share in technical provisions	(104)	(136)
Movement in technical provisions	1,025	1,591
Movement in receivables	(210)	(2,143)
Movement in liabilities	(586)	1,415
Cash flow on investment contracts	(9)	(55)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(116)	(150)
Income tax paid	(957)	(553)
Other adjustments	892	98
Net cash flows from operating activities	**(4,836)**	**2,971**
Cash flow from investing activities		
Proceeds	452,855	488,251
- sale of investment property	17	43
- proceeds from investment property	155	150
- sale of intangible assets and property, plant and equipment	24	5
- sale of ownership interests and shares	1,822	1,739
- realization of debt securities	103,815	111,652
- closing of buy-sell-back transactions	223,228	175,743
- closing of term deposits with credit institutions	109,155	114,140
- realization of other investments	13,779	78,937
- interest received	809	816
- dividends received	28	15
- increase in cash due to purchase of entities and change in the scope of consolidation	4	4,998
- other investment proceeds	19	13

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 30 June 2018	1 January – 30 June 2017 (restated) [1)]
Expenses	(445,904)	(483,411)
- purchase of investment properties	(42)	(24)
- expenditures for the maintenance of investment property	(51)	(90)
- purchase of intangible assets and property, plant and equipment	(260)	(194)
- purchase of ownership interests and shares	(1,754)	(932)
- purchase of ownership interests and shares in subsidiaries	(12)	(6,200)
- decrease in cash due to the sale of entities and change in the scope of consolidation	-	(54)
- purchase of debt securities	(96,626)	(106,503)
- opening of buy-sell-back transactions	(223,316)	(174,595)
- purchase of term deposits with credit institutions	(109,375)	(113,701)
- purchase of other investments	(14,455)	(81,113)
- other expenditures for investments	(13)	(5)
Net cash flows from investing activities	**6,951**	**4,840**
Cash flows from financing activities		
Proceeds	117,941	130,016
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)	12	-
- proceeds from loans and borrowings	1,266	1,611
- proceeds on the issue of own debt securities	1,834	2,250
- opening of repurchase transactions	114,829	126,155
Expenses	(116,843)	(129,070)
- repayment of loans and borrowings	(1,180)	(1,618)
- redemption of own debt securities	(741)	-
- closing of repurchase transactions	(114,808)	(127,415)
- interest on loans and borrowings	(51)	(3)
- interest on outstanding debt securities	(63)	(34)
Net cash flows from financing activities	**1,098**	**946**
Total net cash flows	**3,213**	**8,757**
Cash and cash equivalents at the beginning of the period	8,239	2,973
Movement in cash due to foreign exchange differences	53	(84)
Cash and cash equivalents at the end of the period, including:	11,505	11,646
- restricted cash	67	55

[1)] Information on restatement of data for the period from 1 January to 30 June 2017 is presented in section 3.2.

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

PZU has been entered in the National Court Register kept by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, in the register of businesses under 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).

(in millions of PLN)

1.2 PZU Group entities and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. 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%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.03%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.03%	20.02%	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.03%	20.02%	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.03%	20.02%	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.03%	20.02%	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.03%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation (formerly Pekao Pioneer Powszechne Towarzystwo Emerytalne SA) [1]	Warsaw	07.06.2017	20.03%	20.02%	Management of pension funds. https://www.pekaopte.pl/
17	Pekao TFI SA (formerly Pioneer Pekao TFI SA)	Warsaw	07.06.2017 11.12.2017[2]	20.03%	20.02%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
18	Centrum Kart SA	Warsaw	07.06.2017	20.03%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.82% [3)]	20.02%	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	07.06.2017	20.03%	20.02%	Call-center services. http://www.cbb.pl/
21	Pekao Property SA	Warsaw	07.06.2017	20.03%	20.02%	Development activity.
22	FPB – Media sp. z o.o.	Warsaw	07.06.2017	20.03%	20.02%	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.03%	20.02%	Business consulting
24	Pekao Investment Management SA (formerly Pioneer Pekao Investment Management SA)	Warsaw	07.06.2017 11.12.2017 [2)]	20.03%	20.02%	Asset management. https://www.pekaotfi.pl/tfi/welcome
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	07.06.2017 11.12.2017 [4)]	20.03%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	18.12.2015	31.96%	32.23%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.96%	32.23%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation	Krakow	18.12.2015	31.96%	32.23%	Trading in receivables.
29	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.96%	32.23%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	18.12.2015	31.96%	32.23%	IT services.
31	Alior TFI SA (formerly Money Makers TFI SA) [5)]	Warsaw	18.12.2015	31.96%	19.39%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
32	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.96%	32.23%	The company does not conduct any activity
33	Absource sp. z o.o.	Krakow	04.05.2016	31.96%	32.23%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.96%	32.23%	Brokerage activity.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
36	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
37	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
38	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/
39	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/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
43	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
44	Revimed sp. z o.o.	Gdańsk	31.05.2017	100.00%	100.00%	Medical services. http://www.revimed.pl/
45	Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.	Trzebinia	30.06.2017	100.00%	99.75%	Medical services. http://www.nzoz.trzebinia.com/
46	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	n/a	Medical services. http://www.cmlukasza.pl/
Consolidated companies – other companies						
47	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
48	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
49	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
50	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
51	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Consolidated companies – other companies – continued						
52	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
53	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
54	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/
55	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
56	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
57	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
58	Ardea Alba SA in liquidation (formerly PZU Asset Management SA)	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
59	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. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
60	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
61	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
62	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
63	Battersby Investments SA	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
64	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
65	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
66	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
67	Aquaform Badprodukte GmbH	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
68	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
69	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
70	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Consolidated companies – mutual funds						
71	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
72	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
73	PZU FIZ Sektora Nieruchomości [6)]	Warsaw	01.07.2008	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości 2 [6)]	Warsaw	21.11.2011	n/a	n/a	as above
75	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
76	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
77	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
78	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
79	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	as above
80	PZU Telekomunikacja Media Technologia	Warsaw	07.09.2016	n/a	n/a	as above
81	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	as above
82	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	as above
83	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
84	PZU Akcji Spółek Dywidendowych	Warsaw	31.12.2017	n/a	n/a	as above
85	PZU FIZ Akcji Focus	Warsaw	01.04.2018	n/a	n/a	as above
86	PZU iPuls Gotówka	Warsaw	10.04.2018	n/a	n/a	as above
87	PZU iPuls Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
88	PZU iPuls Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
89	PZU iPlus Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
90	PZU iPuls Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
91	PZU iPuls Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 June 2018	31 December 2017	
Associates						
92	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
93	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [7)]	28.31% [7)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
94	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [8)]	8.01% [8)]	Consulting and business activity – no business conducted.

[1)] On 1 June 2018, the shareholder meeting adopted a resolution to dissolve the company and open its liquidation process.

[2)] on 7 June 2017, upon the acquisition of Pekao shares by PZU, PZU obtained significant influence on PIM, in which Pekao held a 49% stake. After Pekao acquired 51% of PIM's shares on 11 December 2017, PZU obtained indirect control over PIM and consequently over its Pekao TFI subsidiary.

[3)] As a result of the transaction described in section 1.4.4 as of 4 June 2018 PZU directly holds a 33.5% equity stake in PFS while Pekao's stake fell to 66.5%.

[4)] On 7 June 2017, upon the acquisition of Pekao shares by PZU, PZU obtained significant influence on Xelion, in which Pekao held a 50% stake. After Pekao acquired 50% of Xelion's shares on 11 December 2017, PZU obtained indirect control over Xelion.

[5)] Direct subsidiary of Alior Bank, in which Alior Bank holds a 100% stake (as at 31 December 2017: 60.16%). As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.

[6)] As at 30 June 2018, 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 2017: 15 and 20, respectively).

[7)] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 30 June 2018 and as at 31 December 2017 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 associate, in which it holds a 40.00% stake respectively. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

(in millions of PLN)

As at 30 June 2018, besides the companies listed in the table, the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

1.3 Non-controlling interest

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

Name of the entity	30 June 2018	31 December 2017
Pekao [1]	79.97%	79.98%
Alior Bank [2]	68.04%	67.77%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%
NZOZ Trzebinia	0.00%	0.25%

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

Carrying amount of non-controlling interests	30 June 2018	31 December 2017 (restated) [1]
Pekao Group	17,214	18,636
Alior Bank Group	4,113	4,319
Other	5	6
Total	**21,332**	**22,961**

[1] Information on restatement of data as at 31 December 2017 is presented in section 3.2.

(in millions of PLN)

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

Assets	Pekao Group		Alior Bank Group	
	30 June 2018	31 December 2017 (restated) [1)]	30 June 2018	31 December 2017 (restated) [1)]
Goodwill	692	692	-	-
Intangible assets	1,869	2,032	650	662
Other assets	82	95	46	36
Property, plant and equipment	1,661	1,731	441	476
Investment property	13	24	-	-
Loan receivables from clients	121,409	118,660	52,244	50,797
Financial derivatives	1,381	1,608	731	454
Investment financial assets	45,366	52,555	12,726	14,020
Measured at amortized cost	12,973	n/a	4,557	n/a
Measured at fair value through other comprehensive income	31,000	n/a	8,124	n/a
Measured at fair value through profit or loss	1,393	n/a	45	n/a
Held to maturity	n/a	3,500	n/a	1,339
Available for sale	n/a	33,593	n/a	12,259
Measured at fair value through profit or loss	n/a	1,731	n/a	87
Loans	n/a	13,731	n/a	335
Deferred tax assets	1,095	915	904	641
Receivables	2,054	2,017	647	785
Cash and cash equivalents	8,031	5,282	1,863	1,338
Assets held for sale	46	64	-	-
Total assets	**183,699**	**185,675**	**70,252**	**69,209**

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 June 2018	31 December 2017 (restated) [1)]	30 June 2018	31 December 2017 (restated) [1)]
Equity				
Equity attributable to equity holders of the parent	21,527	23,304	6,044	6,374
Share capital	262	262	1,305	1,293
Other capital	20,677	20,562	5,622	5,019
Retained earnings	588	2,480	(883)	62
Non-controlling interest	11	-	-	1
Total equity	**21,538**	**23,304**	**6,044**	**6,375**
Liabilities				
Provisions for employee benefits	424	425	42	43
Other provisions	359	305	177	77
Deferred tax liability	33	38	1	-
Financial liabilities	155,726	157,903	62,717	60,905
Other liabilities	5,619	3,700	1,271	1,809
Total liabilities	**162,161**	**162,371**	**64,208**	**62,834**
Total equity and liabilities	**183,699**	**185,675**	**70,252**	**69,209**

[1)] Information on restatement of data as at 31 December 2017 is presented in section 3.2.

(in millions of PLN)

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

Consolidated profit and loss account for the period from 1 January to 30 June 2018	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	11,881	-	-	6	11,887
Reinsurers' share in gross written premium	(336)	-	-	-	(336)
Net written premiums	**11,545**	**-**	**-**	**6**	**11,551**
Movement in net provision for unearned premiums	(491)	-	-	-	(491)
Net earned premium	**11,054**	**-**	**-**	**6**	**11,060**
Revenue from commissions and fees	1,673	(1,161)	(404)	12	120
Net investment income	5,594	(3,264)	(1,720)	7	617
Net result on realization of financial instruments and investments	99	(67)	(61)	-	(29)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(838)	285	514	-	(39)
Net movement in fair value of assets and liabilities measured at fair value	401	(27)	(377)	-	(3)
Other operating income	800	(180)	(227)	-	393
Claims, benefits and movement in technical provisions	(7,504)	-	-	-	(7,504)
Reinsurers' share in claims, benefits and movement in technical provisions	159	-	-	-	159
Net insurance claims and benefits paid	**(7,345)**	**-**	**-**	**-**	**(7,345)**
Fee and commission expenses	(353)	183	168	-	(2)
Interest expenses	(992)	547	374	(7)	(78)
Acquisition expenses	(1,519)	-	-	(12)	(1,531)
Administrative expenses	(3,342)	1,724	806	(6)	(818)
Other operating expenses	(2,086)	796	403	-	(887)
Operating profit (loss)	**3,146**	**(1,164)**	**(524)**	**-**	**1,458**
Share of the net financial results of entities measured by the equity method	1	-	-	-	1
Profit (loss) before tax	**3,147**	**(1,164)**	**(524)**	**-**	**1,459**
Income tax	(789)	322	141	-	(326)
Net profit (loss)	**2,358**	**(842)**	**(383)**	**-**	**1,133**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2017 [1] (restated)	**PZU Group**	**Elimination of Pekao's data**	**Elimination of Alior Bank's data**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	11,606	-	-	-	11,606
Reinsurers' share in gross written premium	(307)	-	-	-	(307)
Net written premiums	**11,299**	**-**	**-**	**-**	**11,299**
Movement in net provision for unearned premiums	(952)	-	-	-	(952)
Net earned premium	**10,347**	**-**	**-**	**-**	**10,347**
Revenue from commissions and fees	699	(194)	(400)	6	111
Net investment income	3,282	(510)	(2,051)	6	727
Net result on realization of financial instruments and investments	238	45	(1)	-	282
Movement in allowances for expected credit losses and impairment losses on financial instruments	(539)	-	450	-	(89)
Net movement in fair value of assets and liabilities measured at fair value	46	(4)	166	-	208
Other operating income	530	(16)	(82)	-	432
Claims, benefits and movement in technical provisions	(7,379)	-	-	-	(7,379)
Reinsurers' share in claims, benefits and movement in technical provisions	165	-	-	-	165
Net insurance claims and benefits paid	**(7,214)**	**-**	**-**	**-**	**(7,214)**
Fee and commission expenses	(189)	25	154	-	(10)
Interest expenses	(420)	82	303	(6)	(41)
Acquisition expenses	(1,412)	-	-	(6)	(1,418)
Administrative expenses	(2,036)	268	966	(8)	(810)
Other operating expenses	(1,175)	85	242	8	(840)
Operating profit (loss)	**2,157**	**(219)**	**(253)**	**-**	**1,685**
Share of the net financial results of entities measured by the equity method	(1)	(3)	-	-	(4)
Profit (loss) before tax	**2,156**	**(222)**	**(253)**	**-**	**1,681**
Income tax	(451)	51	68	-	(332)
Net profit (loss)	**1,705**	**(171)**	**(185)**	**-**	**1,349**

[1] Information on restatement of data for the period from 1 January to 30 June 2017 is presented in section 3.2.

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 30 June 2018	**1 June - 30 June 2017** [1]	**1 January – 30 June 2018**	**1 January – 30 June 2017**
Net profit	842	171	383	185
Other comprehensive income	44	4	39	40
Debt instruments measured at fair value through other comprehensive income	117	n/a	21	n/a
Equity instruments measured at fair value through other comprehensive income	(56)	n/a	-	n/a
Measurement of financial instruments available for sale	-	(4)	-	34
Net cash flow hedges	(17)	8	19	6
Foreign exchange differences	-	-	(1)	-
Total net comprehensive income	**886**	**175**	**422**	**225**

[1] Information on restatement of data for the period from 1 June to 30 June 2017 is presented in section 3.2.

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 June 2018	1 June - 30 June 2017 [1)]	1 January – 30 June 2018	1 January – 30 June 2017
Net cash flows from operating activities	(5,854)	3,596	(290)	(1,979)
Net cash flows from investing activities	7,422	(396)	896	3,639
Net cash flows from financing activities	1,133	(1,244)	(117)	14
Total net cash flows	**2,701**	**1,956**	**489**	**1,674**

[1)] Information on restatement of data for the period from 1 June to 30 June 2017 is presented in section 3.2.

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 June 2018	1 June - 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Date of ratifying the dividend	21 June 2018	19 April 2017	-	-
Record date	6 July 2018	21 June 2017	-	-
Dividend payout date	20 July 2018	6 July 2017	-	-
Dividend per share (PLN)	7.90	8.68	-	-
Dividend due to the PZU Group	415	456	-	-
Dividend due to non-controlling shareholders	1,659	1,822	-	-

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

1.4.1. Acquisition of shares in Pekao

On 8 December 2016 PZU, acting in a consortium with PFR signed the Pekao share purchase agreement (“SPA”) with UniCredit S.p.A. („Seller”, „UniCredit”).

On the closing date, i.e. on 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.

As a result of this transaction PZU recognized that it acquired control over Pekao on 7 June 2017.

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 adopted by the Pekao Ordinary Shareholder Meeting held on 19 April 2017 in the amount of PLN 8.68 per share, i.e. PLN 456 million in total. The SPA does not contemplate the implementation of an adjustment to the purchase price.

Final settlement of the Pekao acquisition

The settlement for the acquisition of the stake in Pekao on the date of obtaining control was made on the basis of the data prepared on 31 May 2017. No material differences in accounting data transpired between 31 May and 7 June 2017.

The condensed interim consolidated financial statements contain the final fair value of the assets and liabilities acquired (in particular, of the loan portfolio). In the process of calculating goodwill:

- the goodwill carried in Pekao's financial statements was written down;
- intangible assets not carried thus far in Pekao's financial statements were recognized;
- the assets and liabilities in Pekao's financial statements were measured at fair value – the loan portfolio, the property portfolio (owner-occupied property, investment property and property for sale), financial assets held to maturity (measured by Pekao at amortized cost) and available for sale (measured by Pekao at historical cost);
- no contingent liabilities requiring recognition were identified;
- no potential indemnification assets requiring recognition were identified.

(in millions of PLN)

The final settlement of the transaction is presented below on the basis of the fair value of the acquired assets and liabilities.

Assets	**Carrying amount**	**Adjustment to fair value** (preliminary settlement)	**Adjustment –** final settlement	**Fair value**	**Notes**
Goodwill	56	(56)	-	-	The goodwill recognized in Pekao's balance sheet was eliminated and it was recognized as part of the goodwill coming from the acquisition of shares in Pekao.
Intangible assets	544	1,450	-	1,994	New assets were identified: • trade mark – PLN 340 million; • core deposit intangibles (CDI) – PLN 1,000 million; • relations with clients holding a PEX cash loan – PLN 110 million.
Other assets	192	-	-	192	
Property, plant and equipment	1,403	253	51	1,707	The property measured by Pekao at historical cost minus accumulated depreciation and impairment losses was measured at fair value.
Investment property	25	-	2	27	
Entities measured by the equity method	154	400	-	554	The stakes in associates (PIM and Xelion) Pekao measured using the equity method were measured at fair value.
Financial assets	157,634	(1,199)	-	156,435	
Held to maturity	4,507	22	-	4,529	The assets measured by Pekao at amortized cost wer measured at fair value.
Available for sale	22,168	151	-	22,319	The equity instruments presented by Pekao at historical cost were measured at fair value and the measurement of some assets was done in a consistent manner in accordance with the models in operation in the PZU Group.
Measured at fair value through profit or loss	2,886	-	-	2,886	
Hedge derivatives	325	-	-	325	
Loans	127,748	(1,372)	-	126,376	The loan portfolio was measured at fair value.
Deferred tax assets	867	(67)	(10)	790	The deferred tax on the adjustments made to fair value was assessed.
Receivables	2,542	(16)	-	2,526	Receivables were measured at fair value.
Cash and cash equivalents	4,981	-	-	4,981	
Assets held for sale	48	(2)	-	46	Property held for sale was measured at fair value.
Total assets	**168,446**	**763**	**43**	**169,252**	

(in millions of PLN)

Liabilities	Carrying amount	Adjustment to fair value (preliminary settlement)	Adjustment – final settlement	Fair value	Notes
Provisions for employee benefits	381	40	-	421	The provision for employee holidays was measured at fair value.
Other provisions	249	46	-	295	A fair value measurement of provisions was made.
Deferred tax liability	5	-	-	5	
Financial liabilities	141,297	43	-	141,340	Liabilities measured at amortized cost were measured at fair value.
Other liabilities	4,990	66	-	5,056	
Total liabilities	**146,922**	**195**	**-**	**147,117**	

Net assets	Carrying amount	Adjustment to fair value (preliminary settlement)	Adjustment – final settlement	Fair value	Notes
Net assets attributable to the holders of the parent company	21,509	568	43	22,120	Impact exerted by the foregoing revaluations on the net asset value attributable to the holders of the parent company.
Non-controlling interest	15	-	-	15	
Total net assets	**21,524**	**568**	**43**	**22,135**	

(in millions of PLN)

In the settlement of the acquisition, the PZU Group reduced the consideration transferred 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 obtaining control; on the date of PZU's acquisition of control that amount was presented as a receivable, and it was received on 6 July 2017.

Goodwill calculation	Preliminary settlement	Adjustment – final settlement	Final settlement
Consideration transferred	6,001	-	6,001
Cash transferred	6,457	-	6,457
Adjustment by an amount forming the price for the right to receive the dividend	(456)	-	(456)
Value of non-controlling interests (80.00% of the fair value of Pekao's net assets)	17,662	34	17,696
Fair value of the Pekao's identifiable net assets	(22,077)	(43)	(22,120)
Goodwill	**1,586**	**(9)**	**1,577**

Goodwill will not reduce taxable income.

1.4.2. Acquisition of Centrum Medyczne św. Łukasza sp. z o.o.

On 9 January 2018, PZU Zdrowie SA acquired 360 shares in Centrum Medyczne św. Łukasza sp. z o.o. representing 100% of the share capital and 100% of the votes at the shareholder meeting with a par value of PLN 600 each.

Since the date of obtaining control, i.e. 9 January 2018, Centrum Medyczne św. Łukasza sp. z o.o has been consolidated.

1.4.3. Changes to the consolidated mutual funds

Since control was gained over the PZU FIZ Akcji Focus fund, it is consolidated as of 1 April 2018.

In addition, the following newly-created funds are consolidated as of 10 May 2018: PZU iPuls Gotówka, PZU iPuls Obligacje Polskie, PZU iPuls Akcje Polskie, PZU iPlus Akcji Rynków Rozwiniętych, PZU iPuls Obligacji Rynków Rozwiniętych, PZU iPuls Obligacji Rynków Wschodzących.

1.4.4. Transactions under joint control

On 24 April 2018 PTE PZU received the KNF's decisions consenting to the acquisition of management of Pekao OFE and Pekao DFE. PZU PTE and Pekao PTE entered into a business transfer agreement on 18 May 2018 encompassing i.a. the operations of Pekao OFE and Pekao DFE, involving the management of Pekao OFE and Pekao DFE. The business was acquired effectively on 19 May 2018. According to KNF's decision the date for commencing the winding up of Pekao OFE is 1 August 2018, while this process will end and the assets of Pekao OFE will be merged with the assets of OFE PZU "Złota Jesień" on 12 October 2018. The winding up of DFE Pekao has been in progress since 19 May 2018 is slated to be completed on 28 September 2018.

On 4 June 2018 the National Court Register registered PFS's share capital increase in connection with the spin off (organizational, functional and financial) and the transfer of the branch of the PZU CO transfer agent (forming an organization part of a business) to PFS within the meaning of Article 530 § 2 of the Commercial Company Code. The transaction was executed on the basis of the agreement concluded on 16 March 2018 by and between PZU, Pekao, PFS and PZU CO and the spin off plan executed on 27 February 2018 by and between PZU CO (company being spun off) and PFS (acquiring company). PZU CO's net asset value transferred to PFS on the date of the spin off was PLN 7 million. From the spin off date the transfer agent services rendered thus far by PZU CO are rendered by PFS.

The transactions did not affect the condensed interim consolidated financial statements.

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

2.1 Composition of the parent company's Management Board

From 1 January 2018, 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.

No changes in the composition of the PZU Management Board have occurred by the date of conveying this periodic report.

2.2 Composition of the parent company's Supervisory Board

From 1 January 2018, the PZU Supervisory Board consisted of the following persons:

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

On 8 January 2018, Aneta Fałek tendered her resignation from being a PZU Supervisory Board Member as of 8 February 2018.

On 8 January 2018, the Prime Minister, acting on behalf of the State Treasury of the Republic of Poland, appointed Mr. Maciej Łopiński to be a PZU SA Supervisory Board Member.

On 9 January 2018, Bogusław Banaszak, who was a PZU SA Supervisory Board Member, died.

On 9 January 2018, Maciej Łopiński took over the function of Chairman of the PZU Supervisory Board and Paweł Górecki – Deputy Chairman of the PZU Supervisory Board.

On 9 March 2018 the Extraordinary Shareholder Meeting of PZU appointed Robert Jastrzębski to the PZU Supervisory Board.

From 9 March 2018 to the date of conveying this periodic report, the PZU Supervisory Board consisted of the following persons:

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

(in millions of PLN)

- Katarzyna Lewandowska – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

2.3 PZU Group Directors

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

From 1 January 2018, the following persons were PZU Group Directors:

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

No changes in the composition of the PZU Group Directors have occurred by the date of conveying this periodic report.

3. Key accounting policies, key estimates and judgments

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

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

3.1.1. Amendments to the applied IFRS

3.1.1.1. Standards, interpretations and amended standards effective from 1 January 2018

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

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
IFRS 9 – Financial Instruments	1 January 2018	2067/2016	The effect of the application of IFRS 9 is described in section 3.1.2.

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
Amendment to IFRS 4 – Application of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts'	1 January 2018	1988/2017	In accordance with the amendment to IFRS 4 issued by the International Accounting Standards Board on 12 September 2016, insurance undertakings 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. The Commission of the European Union has also allowed financial conglomerates to defer application of IFRS 9 by insurance undertakings in the conglomerates, provided that no financial instruments are transferred between insurance and banking entities within the conglomerates. The report includes information on insurance undertakings that continue to apply IAS 39 and the disclosures required under IFRS 7 are provided separately for the insurance entities applying IAS 39 and for other entities applying IFRS 9. The PZU Group has decided not to take advantage of the possibility referred to in the regulation.
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. The standard does not apply to insurance contracts, financing arrangements and secondary activity (e.g. sale of fixed assets). The PZU Group applied IFRS 15 in accordance with the approach described in section 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. The PZU Group has analyzed the impact the new standard will have on agreements signed by PZU Group entities and has not identified any agreements, for which application of IFRS 15 would have a material effect on the consolidated financial statements. This is because revenues covered by IFRS 15 are of secondary importance to the financial reporting of the PZU Group.

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
Clarifications to IFRS 15 – revenue from contracts with customers	1 January 2018	1987/2017	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.
Amendment to IFRS 2 – Classification and valuation of share-based payment	1 January 2018	289/2018	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 change did not affect the consolidated financial statements.
Amendment to IAS 40 – Transfers of Investment Property	1 January 2018	800/2018	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 did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2014-2016	1 January 2018	182/2018	The amendments pertain to: 1. IFRS 1 – waiver of exemptions for first time adopters as regards certain disclosures; 2. 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	1 January 2018	519/2018	The interpretation clarifies that the exchange rate should be applied in recognizing 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 had no effect on the PZU Group's consolidated financial statements.

3.1.2. IFRS 9 – Financial Instruments

IFRS 9 *Financial Instruments*, published by the IASB in July 2014 and approved by the European Commission in November 2016, replaces IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The PZU Group started applying IFRS 9 on 1 January 2018 in the version published in July 2014.

(in millions of PLN)

IFRS 9 sets out new requirements for the classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

Effect of the application of the new standard

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Carrying amount under IFRS 9 as at 1 January 2018
Loan receivables from clients	Financial assets at amortized cost	167,497	(83)	(1,524)	165,890
	Financial assets at fair value through other comprehensive income	1,597	(73)	33	1,557
	Financial assets at fair value through profit or loss	363	(6)	8	365
Financial derivatives	Financial derivatives	2,351	-	-	2,351
Held to maturity	Financial assets at amortized cost	18,985	-	(11)	18,974
	Financial assets at fair value through other comprehensive income	2,204	66	-	2,270
	Financial assets at fair value through profit or loss	48	1	-	49
Available for sale	Financial assets at amortized cost	4,874	(1)	(2)	4,871
	Financial assets at fair value through other comprehensive income	43,385	-	-	43,385
	Financial assets at fair value through profit or loss	260	-	-	260
Measured at fair value through profit or loss	Financial assets at amortized cost	25	(2)	-	23
	Financial assets at fair value through other comprehensive income	491	-	-	491
	Financial assets at fair value through profit or loss	19,727	-	-	19,727
Loans – debt securities	Financial assets at amortized cost	8,515	(2)	(19)	8,494
	Financial assets at fair value through other comprehensive income	5,108	(2)	(9)	5,097
Loans - other	Financial assets at amortized cost	6,424	-	(45)	6,379
Cash and cash equivalents		8,239	-	-	8,239
Other assets		25,775	-	3	25,778
Deferred tax assets		1,590	19	306	1,915
Total assets		**317,458**	**(83)**	**(1,260)**	**316,115**

(in millions of PLN)

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Carrying amount under IFRS 9 as at 1 January 2018
Equity attributable to equity holders of the parent		**14,599**	**(223)**	**(231)**	**14,145**
Share capital		86	-	-	86
Revaluation reserve		157	(34)	41	164
Other capital		11,760	-	-	11,760
Retained earnings		2,596	(189)	(272)	2,135
Non-controlling interest		**22,961**	**140**	**(1,182)**	**21,919**
Total equity		**37,560**	**(83)**	**(1,413)**	**36,064**
Financial liabilities held for trading	Financial liabilities at fair value through profit or loss	4,955	-	-	4,955
Financial liabilities at amortized cost	Financial liabilities at amortized cost	219,595	-	-	219,595
Provisions		45,611	-	153	45,764
Deferred tax liability		638	-	-	638
Other liabilities		9,099	-	-	9,099
Total liabilities		**279,898**	**-**	**153**	**280,051**
Total equity and liabilities		**317,458**	**(83)**	**(1,260)**	**316,115**

The PZU Group reduced the allowances for expected credit losses recognized by banks in the condensed interim financial statements for Q1 2018 by subtracting from them the amounts pertaining to the changes in credit risk recognized in the fair value measurement of the loan receivables portfolios as at the date of acquiring the banks and that were outstanding up to 1 January 2018. As a result of the analyses conducted, also by engaging external advisors, the decision was ultimately made to recognize the consequence of credit risk in the condensed interim financial statements for H1 2018, similarly to the approach taken by banks, as follows from the principal assumption made by IFRS 9 in respect of the immediate recognition of credit losses directly following the acquisition of financial assets. The only difference in comparison with the amounts recognized by the banks ensued from the divergent classification to baskets at the PZU Group's consolidated level.

Effect of the application of IFRS 9	Condensed interim consolidated financial statements for Q1 2018	Difference	Condensed interim consolidated financial statements for H1 2018
Revaluation reserve	7	-	7
Retained earnings	(349)	(112)	(461)
Total equity attributable to equity holders of the parent	**(342)**	**(112)**	**(454)**
Non-controlling interest	(739)	(303)	(1,042)
Total equity	**(1,081)**	**(415)**	**(1,496)**

Classification and measurement of financial assets

This standard introduces a new approach to the classification of financial assets, which depends on:

- the entity's business model for managing financial assets and
- the contractual cash flow characteristics of the financial asset.

According to IFRS 9 financial assets are classified for valuation at:

- amortized cost;
- fair value through profit or loss;
- fair value through other comprehensive income.

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. The classification may only be changed in very rare cases when the business model changes.

Business models

The components of financial assets are managed according to business models used to convey information for management purposes. The analysis of models done by the PZU Group covered the following, among others:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed.

Financial assets held for trading and those that are managed and whose results are evaluated at fair value have been classified as measured at fair value through profit or loss.

SPPI test

In order to evaluate whether contractual cash flows consist of solely payments of principal and interest (SPPI test), a special test is performed. The principal amount is the fair value of a financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The SPPI test examines whether a financial asset contains contractual terms that could change the timing or amounts of contractual cash flows so that the condition of obtaining solely payments of principal and interest would not be met. In making its evaluation, the PZU Group takes the following into account:

- conditional events that could change the amounts and timing of cash flows;
- factors increasing interest;
- terms of prepayment and extension;
- terms limiting the right to obtain cash flows;
- factors that modify the time value of money, e.g. periodic resets of the interest rate.

Financial assets measured at amortized cost

A financial asset is classified as financial asset measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows,
- it passes the SPPI test – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These conditions are met by the financial assets classified according to IAS 39 as loans and receivables (of which most credit receivables from clients) and as financial assets held to maturity, except for the financial assets, for which it was determined after analysis that their terms may result in cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost also include purchased financial assets impaired due to credit risk. Such financial assets were acquired in connection with the merger with a spun-off portion of Bank BPH in 2016 and Bank Meritum in 2015. As a result, loans and debt securities (treasury bonds) of an investment nature were classified as measured at amortized cost. Under IAS 39 provisions, which were applied until 31 December 2017, the items were classified respectively as loans and receivables, financial assets available for sale and financial assets held to maturity.

At the time of initial application of IFRS9, an assessment was also made of the business model for investment securities, which are mostly held to obtain cash flows and for sale, as a result of which it was concluded that it was common practice in some of these securities to hold them to obtain cash flows and the intentions with respect to them had not changed. Therefore, it was concluded that the appropriate business model for these securities is a model whose objective is achieved by holding financial assets to collect contractual cash flows and accordingly they were reclassified to assets measured at amortized cost. Previously, these securities were classified as available for sale and measured at fair value through equity.

Financial assets measured at fair value through other comprehensive income

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- it passes the SPPI test – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These conditions are satisfied in particular by the debt instruments, which under IAS 39 were classified as financial assets available for sale.

Since some receivables from clients on account of loans and corporate and municipal securities were classified into a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, these loans are measured at fair value through equity. Before applying IFRS 9, these items were measured at amortized cost in accordance with IAS 39.

In connection with the possible sale of some assets from the portfolio of securities previously held to maturity, they were reclassified to fair value through equity, because the relevant business model for these securities is a model whose objective is achieved by both collecting cash flows and selling financial assets. Before applying IFRS 9, these items were measured at amortized cost in accordance with IAS 39.

This category of financial assets also includes equity instruments, for which an irrevocable designation has been made to be measured at fair value, with subsequent changes in fair value recognized in other comprehensive income.

Financial assets at fair value through profit or loss

This category includes other financial instruments that do not meet the conditions for being classified as financial assets measured at amortized cost or fair value through other comprehensive income. This pertains in particular to the following financial assets:

- financial assets designated for measurement at fair value through profit or loss;
- financial assets classified under IAS 39 as held for trading;
- derivative transactions;
- participation units that are not equity instruments and to which the SPPI condition does not apply, which solely payment of principal and interest, classified under IAS 39 as financial assets available for sale;
- financial assets that have not passed the SPPI test - for which contractual terms result in cash flows not being solely payments of principal and interest;
- financial assets held within a business model other than the one whose objective is to hold financial assets in order to collect contractual cash flows or both to collect contractual cash flows and to sell financial assets;
- equity instruments that, in accordance with IAS 39, were classified as available for sale and measured at fair value through equity but not irrevocably designated as at fair value through equity;
- loan receivables from customers for loans under which contractual cash flows are not solely payments of principal and interest due to financial leverage increasing the variability of contractual cash flows. This applies mainly to student loans, loans with subsidies from the Agency for Restructuring and Modernization of Agriculture and some corporate exposures. Before applying IFRS 9, these items were measured at amortized cost in accordance with IAS 39.

Classification and measurement of financial liabilities

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include those instruments that were classified in the same category under IAS 39, in particular:

- derivative transactions;
- liabilities on borrowed securities (short sale);
- investment contracts for the client's account and risk (unit-linked);
- liabilities to members of consolidated mutual funds.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include those instruments that were classified in the same category under IAS 39, in particular:

- deposits obtained by the PZU Group's banks;
- securities issued by banks;
- loans received;
- liabilities on the issue of own debt securities;
- subordinated liabilities;
- liabilities under repurchase transactions.

Impairment

IFRS 9 introduces an obligation to recognize not only incurred losses, as in the case of IAS 39, but also expected credit loss (ECL). This means a significant increase in the probability weighted estimates of expected credit loss.

The new impairment model is applied to the following financial assets that are not measured at fair value through profit or loss:

- loan receivables from clients;
- debt securities;
- lease receivables;
- lending commitments and issued financial guarantees (previously impairment losses were recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

For debt assets measured at amortized cost and at fair value through other comprehensive income, impairment is measured as:

- Lifetime ECL – the expected credit losses that result from all possible default events over the expected life of a financial instrument;
- 12-month ECL – the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group measures allowances for expected credit losses at an amount equal to lifetime ECL, except for the following instruments, for which 12-month ECL is recognized instead:

- financial instruments for which credit risk has not increased significantly since initial recognition;
- debt securities featuring low credit risk at the reporting date. Low-risk debt securities are those securities that have been assigned an external investment-grade rating;

Change of the approach to calculation of impairment losses has 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 impariment are no longer used. The impairment is designated in three categories:

- basket 1 – basket with low credit risk – a 12-month ECL is recognized;
- basket 2 – the portfolio in which a significant increase of credit risk occurs – a lifetime ECL is recognized;
- basket 3 – impaired loans – a lifetime ECL is recognized.

The impairment loss calculation method also affects the method of recognizing interest income – for baskets 1 and 2 interest income is determined on the basis of gross exposures, and in basket 3 on a net basis. If credit risk increases significantly (basket 2) then the expected credit losses are recognized earlier, which contributes to higher impairment losses and consequently affects the financial result.

The PZU Group recognizes the cumulative changes in lifetime ECL since initial recognition as allowances for expected credit losses for ECL from purchased or originated credit-impaired financial assets (POCI).

Calculation of PD and LGD parameters

PZU Group uses the following parameters to estimate allowances for expected credit losses:

- Probability of Default (PD) – probability of default of a counterparty over a specified time horizon;
- Loss Given Default (LGD) – loss given default, expressed as a percentage of the total exposure in case of a counterparty's insolvency.

For issuers and exposures that are externally rated, PDs is assigned on the basis of the average market default rate for the rating classes concerned. First, the internal rating of an entity/issue is determined in accordance with the internal rating methodology. The tables published by external rating agencies are used to estimate average PD.

The Moody's RiskCalc model is used for issuers of corporate bonds and corporate loans, for which no external rating is available. The EDF parameter (expected default frequency) is used to estimate PD. When estimating lifetime PD for exposures with maturity above 5 years (in the RiskCalc model, the forward EDF curve refers to a 5-year period), it is assumed that in subsequent years PD is constant and corresponds to the value determined by the model for the 5th year.

For issuers of corporate bonds and corporate loans, 12-month LGD is determined based on the Moody's RiskCalc model (LGD module). When estimating lifetime LGD for exposures with maturity above 5 years, it is assumed that in subsequent years LGD is constant and corresponds to the value determined by the module for the 5th year.

If a credit rating agency has allocated a separate recovery rate to the instrument concerned then this parameter is used. For a given RR parameter the formula: LGD = 1-RR is applicable.

Where the RiskCalc model cannot be used to estimate LGD levels and where the instrument does not have LGD awarded by an external rating agency then the average RR should be used, based on market data (properly differentiating the corporate and sovereign debt classes) from external rating agencies, i.e. Moody's, Standard & Poor's or Fitch, using the following formula: LGD = 1-RR. When lifetime LGD must be estimated, the value of this parameter is assumed to be constant. The degree of subordination of debt is taken into account when selecting data for LGD.

Change in credit risk since initial recognition

At each reporting date, the PZU Group shall assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the PZU Group should use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. To make that assessment, the Group compares the PD for the financial instrument as at the reporting date with the PD as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort.

It is recognized that the credit risk on a financial instrument has not increased significantly at initial recognition and on the reporting date if the financial instrument features low credit risk (that is, it has an external investment-grade rating).

The PZU Group assesses whether the credit risk of financial instruments has increased significantly by comparing the PD parameter for the rest of its lifetime on the reporting date with the PD parameter for the rest of its lifetime estimated at the time of initial recognition.

The PZU Group regularly monitors the effectiveness of the criteria used to identify a significant increase in credit risk, in order to confirm that:

- the criteria allow for identification of a significant increase in credit risk before the impairment of the exposure occurs;
- the criteria do not coincide with the 30-day past due period;
- the average time between identifying a significant increase in credit risk and impairment is reasonable;
- exposures are generally not transferred directly from basket 1 (12-month ECL) to basket 3 (impairment);

- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

The financial assets acquired in the transactions to acquire Pekao and Alior Bank were classified as of the date of acquisition to basket 1 or as POCI, respectively (assets that were covered by impairment losses).

The financial assets that were classified as POCI as of the date of acquisition did not change their classification on the day of implementing IFRS 9, or on subsequent balance sheet dates. The following standards have been endorsed for the other exposures:

- The PZU Group maintains the banks' classification in respect of exposures that were in basket 1 in the bank on the date of acquisition;
- a check is done of the exposures that were in basket 2 in the banks on the date of acquisition to see whether the loan quality deteriorated after the date of acquisition. If not – these assets are classified as basket 2, also at the PZU Group level; otherwise – the PZU Group upholds the classification to basket 1 (no modifications versus the acquisition date);

The assignment of all the assets acquired by banks after the date of acquisition to baskets at the PZU Group level is consistent with the classification used at the level of the bank's financial statements.

Hedge accounting

Upon first application of IFRS 9 it is possible to opt to continue application of the hedge accounting requirements in accordance with IAS 39 instead of section 6 of IFRS 9. The PZU Group has made a decision to continue to apply IAS 39 to hedge accounting. However, in respect to hedge accounting disclosures, IFRS 7 *Financial Instruments: Disclosures* amended by IFRS 9 is applied because the option to choose an accounting policy does not exempt from the application of the new disclosure requirements.

Disclosures

The implementation of IFRS 9 resulted in a significant change in the presentation disclosures pertaining to financial instruments. The PZU Group took 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 are recognized in the line item "Retained earnings".

(in millions of PLN)

3.1.3. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Standard/interpretation	Effective date for annual periods starting from	Regulation approving the standard or interpretation	Notes
IFRS 16 – Leases	1 January 2019	1986/2017	IFRS 16 replaces IAS 17 *Leases* and any interpretations related to this 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. Recognition of leases on the lessor's side will in most cases remain unchanged due to the maintenance of the breakdown between operating leases and financial leases. The PZU Group is currently in the process of assessing these contracts in terms of their fulfilment of the definition of lease and estimating the lease period and the impact on the consolidated financial statements. The PZU Group will take advantage of a waiver of the requirement to apply this standard to short-term leases and leases of low-value assets.
Amendment to IFRS 9	1 January 2019	498/2018	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 change will not affect to a material extent the PZU Group's consolidated financial statements.

(in millions of PLN)

- 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)	Notes
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 contracts 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.
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, outstanding 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 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.
Amendments to IAS 19 Employee Benefits	7 February 2018	1 January 2019	The amendment contains clarifications for the guidelines in case of a plan amendment, curtailment or settlement during the reporting period. The amendments require entities, after such an event, to use updated actuarial assumptions to calculate current service cost and net interest for the remaining part of the reporting period. The amendments also clarify how the plan amendment, curtailment or settlement affects the requirements related to the limit on the defined benefit asset. The IASB has decided that the scope of these amendments does not cover the settlement of "significant market fluctuation" (in euro). The amendments apply to plan amendments, curtailments or settlements that will take place on or after 1 January 2019, with the possibility of earlier application.

(in millions of PLN)

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)	Notes
Annual improvements to IFRS 2015-2017	12 December 2017	1 January 2019	The amendments pertain to: 1. IFRS 3 - the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2. IFRS 11 - the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3. IAS 12 - the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4. IAS 23 - the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings The amendments will have no significant influence on the PZU Group's consolidated financial statements.
Amendments to the framework	29 March 2018	1 January 2020	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Additionally, they contain explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements. The amendments will have no significant influence on the PZU Group's consolidated financial statements.

In summary, in the opinion of the PZU Group, the introduction of the above standards and interpretations will have no material effect on the accounting principles applied by the PZU Group, except for IFRS 17.

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

The change described in section 3.2.3 was already recognized in the consolidated financial statements for 2017.

3.2.1. Settlement of the Pekao acquisition

In connection with the final settlement of the acquisition of the shares in Pekao, a retroactive restatement of data as at 31 December 2017 has been performed. More information on this matter is presented in section 1.4.1.

3.2.2. Change in presentation of the consolidated statement of financial position and the consolidated profit and loss account

In order to propose a better presentation of the PZU Group's financial standing and financial results, the following presentation changes have been made:

- in the consolidated statement of financial position:
  - "Loan receivables from clients" have been spun off to a different line item;
  - financial derivatives have been spun off to a different line item and merged with derivatives for hedging purposes, presenting their breakdown in the pertinent note;
- in the consolidated profit and loss account, the line item "Net result on realization and impairment losses on investments" has been broken down into the following two separate line items: "Net result on realization of financial instruments and investments" and "Movement in allowances for expected credit losses and impairment losses on financial instruments".

Comparative data have been restated accordingly.

3.2.3. 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 fee and commission expenses to administrative expenses.

3.2.4. Amendments to comparative data in Alior Bank

3.2.4.1. Correction of errors pertaining to Corporate Income Tax for 2012-2017

Alior Bank made a correction to the income tax settlement for 2012-2017 due to eliminating from tax accounts for those years the accrued interest that was not received on the date of writing off the uncollectible receivables, thereby causing an understatement of taxable income. At the same time, some of the interest on the receivables written down in the off-balance sheet records was incorrectly recognized as a taxable temporary difference and included in the basis of the deferred tax liability.

This adjustment lowered equity as at 31 December 2017 by PLN 17 million (PLN 5 million on the PZU Group's interest and PLN 12 million on non-controlling interests) and raised net profit for H1 2017 by PLN 9 million (PLN 3 million on the PZU Group's interest and PLN 6 million on non-controlling interests).

3.2.4.2. Correction of the recognition of the result on structured products

Alior Bank altered the method of measuring the fair value of the option embedded in the structured products (certificates of deposit) issued by the bank. Previously, the embedded options were measured using parameters not coming from an active market. Presently, parameters from the interbank market are used where the bank enters into oppposite transactions, hedging the options embedded in structured products. Alior Bank also altered its method of settling costs and income related to the issue of certificates of deposit. Under its previous methodology, marginal costs were approximately close to the amount of the distribution fee and therefore the costs and the fee were recognized all at once at the time of entering into the transaction. Alior Bank reviewed its marginal costs as a result of which their level was reduced. Accordingly, Alior Bank presently settles the income from the distribution fee and the marginal costs spread over time until the date of maturity of the certificates of deposit.

This adjustment lowered equity as at 31 December 2017 by PLN 35 million (PLN 11 million on the PZU Group's interest and PLN 24 million on non-controlling interests, respectively) and lowered net profit for H1 2017 by PLN 13 million (PLN 4 million on the PZU Group's interest and PLN 9 million on non-controlling interests, respectively).

3.2.4.3. Correction to the recognition of the cost for the Bank Guarantee Fund fee in respect to a portion of the contribution in the form of freezing securities in the last period

In conjunction with the amendment as of 2017 to the BFG Act and the regulation of 10 March 2017 issued by the Minister of Development and Finance on transferring in the form of payment obligations the contributions paid to BFG, availing itself of § 4 of this regulation Alior Bank makes the settlement (30% of the contribution due) with BFG in the form of a payment obligation in the form of a freeze on securities. After receipt on 2 March 2017 and 20 April 2017 of letters from BFG specifying the amounts of the contributions to the Deposit Guarantee Fund and the Forced Restructuring Fund, Alior Bank applied an incorrect method of keeping records by recognizing this portion of the contribution similarly as in the case of freezing securities for the Guaranteed Funds Protection Fund and accordingly it failed to recognize the cost of the payment obligation in its profit and loss account. According to IAS 37 and IFRIC 21 a payment obligation in the form of freezing securities, just as the remaining portion of the contribution to BFG should be recognized as a cost in the current period. Accordingly, Alior Bank made a retrospective adjustment by recognizing the payment obligation in the form of freezing securities for 2017 as a cost in 2017 and restating the comparative data.

This adjustment lowered equity as at 31 December 2017 by PLN 19 million (PLN 6 million on the PZU Group's interest and PLN 13 million on non-controlling interests, respectively) and lowered net profit for H1 2017 by PLN 16 million (PLN 5 million on the PZU Group's interest and PLN 11 million on non-controlling interests, respectively).

(in millions of PLN)

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

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

Assets	31 December 2017 *(historical)*	Adjustment	31 December 2017 *(restated)*	1 January 2017 *(historical)*	Adjustment	1 January 2017 *(restated)*
Goodwill	3,839	(9) [1]	3,830	1,583	-	1,583
Property, plant and equipment	3,239	48 [1]	3,287	1,467	-	1,467
Investment property	2,354	1 [1]	2,355	1,738	-	1,738
Loan receivables from clients	n/a	169,457 [2]	169,457	n/a	44,998 [2]	44,998
Financial derivatives	n/a	2,351 [2]	2,351	n/a	953 [2]	953
Investment financial assets	281,854	(171,808) [2]	110,046	105,286	(45,951) [2]	59,335
Measured at fair value through profit or loss	22,247	(2,004) [2]	20,243	21,882	(881) [2]	21,001
Hedge derivatives	347	(347) [2]	n/a	72	(72) [2]	n/a
Loans	189,504	(169,457) [2]	20,047	54,334	(44,998) [2]	9,336
Deferred tax assets	1,577	(10) [1] 23 [3]	1,590	633	8 [3]	641
Total assets	**317,405**	**53**	**317,458**	**125,296**	**8**	**125,304**

Equity and liabilities	31 December 2017 *(historical)*	Adjustment	31 December 2017 *(restated)*	1 January 2017 *(historical)*	Adjustment	1 January 2017 *(restated)*
Equity						
Equity attributable to equity holders of the parent	14,622	(23)	14,599	12,998	(8)	12,990
Retained earnings	2,619	(1) [1] (22) [3]	2,596	2,043	(8) [3]	2,035
Non-controlling interest	22,979	31 [1] (49) [3]	22,961	4,086	(19) [3]	4,067
Total equity	**37,601**	**(41)**	**37,560**	**17,084**	**(27)**	**17,057**
Financial liabilities	224,507	43 [3]	224,550	60,030	15 [3]	60,045
Other liabilities	9,045	51 [3]	9,096	4,991	20 [3]	5,011
Total liabilities	**279,804**	**94**	**279,898**	**108,212**	**35**	**108,247**
Total equity and liabilities	**317,405**	**53**	**317,458**	**125,296**	**8**	**125,304**

[1] Change described in section 3.2.1.
[2] Change described in section 3.2.2.
[3] Change described in section 3.2.4.

(in millions of PLN)

Consolidated profit and loss account	1 January – 30 June 2017 (*historical*)	Adjustment	1 January – 30 June 2017 (*restated*)
Revenue from commissions and fees	702	9 [1)] (12) [4)]	699
Net investment income	3,267	15 [1)]	3,282
Net result on realization and impairment losses on investments	(301)	301 [2)]	n/a
Net result on realization of financial instruments and investments	n/a	238 [2)]	238
Movement in allowances for expected credit losses and impairment losses on financial instruments	n/a	(539) [2)]	(539)
Net movement in fair value of assets and liabilities measured at fair value	66	(4) [1)] (16) [4)]	46
Fee and commission expenses	(204)	15 [3)]	(189)
Interest expenses	(426)	1 [1)] 5 [4)]	(420)
Administrative expenses	(2,025)	(2) [1)] (15) [3)] 6 [4)]	(2,036)
Other operating expenses	(1,131)	(28) [1)] (16) [4)]	(1,175)
Profit before tax	**2,198**	**(42)**	**2,156**
Income tax	(465)	2 [1)] 12 [4)]	(451)
Net profit	**1,733**	**(28)**	**1,705**

Consolidated statement of comprehensive income	1 January – 30 June 2017 (*historical*)	Adjustment	1 January – 30 June 2017 (*restated*)
Net profit	1,733	(28)	1,705
Other comprehensive income	8	(4)	4
Subject to subsequent transfer to profit or loss	7	(4)	3
Measurement of financial instruments available for sale	42	1 [1)]	43
Cash flow hedging	18	(5) [1)]	13
Total net comprehensive income	**1,741**	**(32)**	**1,709**
- comprehensive income attributable to equity holders of the Parent Company	1,419	(8)	1,411
- comprehensive income attributed to holders of non-controlling interest	322	(24)	298

[1)] Change described in section 3.2.1.
[2)] Change described in section 3.2.2.
[3)] Change described in section 3.2.3.
[4)] Change described in section 3.2.4.

(in millions of PLN)

Consolidated cash flow statement	1 January – 30 June 2017 (*historical*)	Adjustment	1 January – 30 June 2017 (*restated*)
Profit before tax	2,198	(42) [1)]	2,156
Adjustments	773	42	815
Movement in loan receivables from clients	(2,368)	1,356 [1)]	(1,012)
Interest income and expenses	(707)	(15) [1)]	(722)
Amortization of intangible assets and depreciation of property, plant and equipment	271	23 [1)]	294
Movement in liabilities	1,382	33 [2)]	1,415
Other adjustments	1,453	(1,355) [1)]	98
Net cash flows from operating activities	**2,971**	**-**	**2,971**

[1)] Change described in section 3.2.1.
[2)] Change described in section 3.2.4.

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

4.1 Distribution of the PZU Group's 2017 financial result

On 28 June 2018 the PZU Ordinary Shareholder Meeting adopted a resolution to distribute net profit for 2017. This matter is described in section 14.

4.2 The most important dividends distributed between the PZU Group companies

On 21 June 2018, Pekao's Ordinary Shareholder Meeting adopted a resolution on the distribution of 2017 net profit, earmarking PLN 2,074 million, i.e. PLN 7.90 per share to be paid in dividends.

The record date fell on 6 July 2018 and the dividend payout date on 20 July 2018. PZU received a dividend of PLN 415 million.

5. Material events after the end of the reporting period

On 7 August 2018 Pekao and Alior Bank retracted from further negotiations pertaining to a merger of the two banks. The banks failed to strike an agreement on the conditions for their merger to make it possible to achieve the potentially highest added value for shareholders.

(in millions of PLN)

6. Supplementary notes to the condensed interim consolidated financial statements

6.1 Gross written premiums

Gross written premiums	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Gross written premiums in non-life insurance	3,955	7,692	3,716	7,338
In direct insurance	3,979	7,703	3,734	7,349
In indirect insurance	(24)	(11)	(18)	(11)
Gross written premiums in life insurance	2,095	4,189	2,122	4,268
Individual insurance premiums	373	745	407	838
Individually continued insurance premiums	502	1,001	494	985
Group insurance premiums	1,220	2,443	1,221	2,445
Total gross written premiums	**6,050**	**11,881**	**5,838**	**11,606**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Accident and sickness insurance (group 1 and 2)	149	310	141	295
Motor third party liability insurance (group 10)	1,547	3,001	1,517	2,891
Other motor insurance (group 3)	966	1,942	931	1,880
Marine, aviation and transport insurance (classes 4, 5, 6, 7)	28	45	21	39
Insurance against fire and other property damage (groups 8 and 9)	916	1,638	763	1,519
TPL insurance (groups 11, 12, 13)	189	420	192	411
Credit and suretyship (classes 14, 15)	24	47	28	46
Assistance (group 18)	121	235	104	209
Legal protection (group 17)	2	5	2	5
Other (group 16)	37	60	35	54
Total	**3,979**	**7,703**	**3,734**	**7,349**

6.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Banking activity	666	1,314	366	557
Brokerage fees	38	87	28	51
Fiduciary activity	18	34	8	10
Payment card and credit card services	208	400	103	149
Fees on account of insurance intermediacy activities	28	60	24	42
Credits and loans	119	219	68	89
Bank account-related services	104	211	60	98
Transfers	78	153	35	51
Cash operations	26	50	17	26
Receivables purchased	10	19	5	9
Suretyship, letters of credit, collections, promises	18	36	8	11
Other commission	19	45	10	21
Revenue and payments received from funds and mutual fund companies	137	273	50	76
Pension insurance	44	84	35	63
Other	1	2	2	3
Total revenue from commissions and fees	**848**	**1,673**	**453**	**699**

(in millions of PLN)

6.3 Net investment income

Net investment income	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Interest income, including:	2,747	5,508	1,696	2,828
Loan receivables from clients	2,092	4,125	1,215	1,983
Debt securities measured at fair value through other comprehensive income	189	437	n/a	n/a
Debt securities measured at amortized cost	301	615	n/a	n/a
Buy-sell-back transactions	20	37	(8)	-
Term deposits with credit institutions	32	63	14	20
Financial assets available for sale	n/a	n/a	90	138
Financial assets held to maturity	n/a	n/a	231	445
Debt securities classified in the loans portfolio	n/a	n/a	19	44
Loans	43	84	85	118
Receivables purchased	20	55	16	21
Hedge derivatives	40	70	18	29
Receivables	-	1	9	15
Cash and cash equivalents	10	21	7	15
Dividend income, including:	45	46	15	16
Investment financial assets measured at fair value through profit or loss	25	26	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income	20	20	n/a	n/a
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	11	11
Financial assets held for trading	n/a	n/a	2	2
Financial assets available for sale	n/a	n/a	2	3
Income on investment property	64	128	64	125
Foreign exchange differences	(176)	(44)	165	367
Other, including:	(17)	(44)	(24)	(54)
Investment activity expenses	(4)	(11)	(5)	(16)
Investment property maintenance expenses	(22)	(49)	(26)	(50)
Other	9	16	7	12
Total net investment income	**2,663**	**5,594**	**1,916**	**3,282**

(in millions of PLN)

6.4 Net result on realization of financial instruments and investments

Net result on realization of financial instruments and investments	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Investment financial assets	84	118	67	1
Debt instruments measured at fair value through other comprehensive income	59	92	n/a	n/a
Financial instruments measured at fair value through profit or loss	23	22	n/a	n/a
Equity instruments	(5)	6	n/a	n/a
Participation units and investment certificates	(6)	(4)	n/a	n/a
Debt instruments	34	20	n/a	n/a
Instruments measured at amortized cost	2	4	n/a	n/a
Financial assets available for sale, including:	n/a	n/a	13	(10)
Equity instruments	n/a	n/a	13	(9)
Debt securities	n/a	n/a	-	(1)
Financial assets measured at fair value through profit or loss – classified as such upon first recognition, including:	n/a	n/a	91	50
Equity instruments	n/a	n/a	47	14
Debt securities	n/a	n/a	44	36
Financial assets held for trading, including:	n/a	n/a	(37)	(39)
Equity instruments	n/a	n/a	7	40
Debt securities	n/a	n/a	(44)	(79)
Loan receivables from clients measured at amortized cost	25	29	-	-
Derivatives	(58)	(18)	148	236
Short sale	1	3	-	-
Loans	-	-	21	22
Receivables	(13)	(27)	(16)	(29)
Investment property	(6)	(6)	7	7
Other	-	-	1	1
Net result on realization of financial instruments and investments	**33**	**99**	**228**	**238**

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Investment financial assets	(13)	3	7	7
Debt instruments measured at fair value through other comprehensive income	(5)	(2)	n/a	n/a
Instruments measured at amortized cost	(8)	5	n/a	n/a
- debt instruments	-	8	n/a	n/a
- term deposits with credit institutions	(1)	(1)	-	-
- loans	(7)	(2)	7	7
Loan receivables from clients	(382)	(795)	(296)	(505)
Measured at amortized cost	(381)	(799)	(296)	(505)
Measured at fair value through other comprehensive income	(1)	4	n/a	n/a
Receivables	(3)	(41)	(27)	(41)
Associates	(5)	(5)	-	-
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(403)**	**(838)**	**(316)**	**(539)**

(in millions of PLN)

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

Net movement in fair value of assets and liabilities measured at fair value	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Investment financial instruments measured at fair value through profit or loss	89	(9)	n/a	n/a
Equity instruments	(57)	(211)	n/a	n/a
Debt securities	128	246	n/a	n/a
Participation units and investment certificates	18	(44)	n/a	n/a
Investment financial instruments measured at fair value through profit or loss – classified in that category upon first recognition, including:	n/a	n/a	(190)	221
Equity instruments	n/a	n/a	(190)	222
Debt securities	n/a	n/a	-	(1)
Investment financial instruments held for trading, including:	n/a	n/a	71	216
Equity instruments	n/a	n/a	(33)	139
Debt securities	n/a	n/a	104	77
Derivatives	259	275	(191)	(168)
Measurement of liabilities to members of consolidated mutual funds	9	15	7	(34)
Investment contracts for the client's account and risk (unit-linked)	-	10	(2)	(19)
Investment property	117	110	(168)	(170)
Loan receivables from clients	2	-	-	-
Net movement in fair value of assets and liabilities measured at fair value, total	**476**	**401**	**(473)**	**46**

6.7 Other operating income

Other operating income	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Revenues on the sales of products, merchandise and services by non-insurance companies	133	297	122	217
Revenues from direct claims handling on behalf of other insurance undertakings	47	100	51	107
Reversal of provisions	54	239 [1)]	30	36
Reimbursement of the costs of pursuit of claims	8	14	11	20
Reinsurance commissions and profit participation	13	22	9	18
Reversal of impairment losses for non-financial assets	8	8	-	17
Indemnity received	4	9	2	4
Interest for late payment of amounts due under direct insurance and outward reinsurance	5	14	6	8
Gain from sale of property, plant and equipment	4	10	-	-
Commissions for acting as an emergency adjuster	1	3	1	3
Written off liabilities on account of premium refunds and payment surpluses	-	4	(9)	48
Other	33	80	28	52
Other operating income, total	**310**	**800**	**251**	**530**

[1)] including a reversal of 233 million by the banks of a provision for guarantees and sureties given

(in millions of PLN)

6.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Claims, benefits and movement in technical provisions	**3,773**	**7,504**	**3,587**	**7,379**
In non-life insurance	2,262	4,415	2,029	3,868
- claims and benefits	1,786	3,565	1,597	3,259
- movement in technical provisions	283	462	245	235
- claims handling expenses	193	388	187	374
In life insurance	1,511	3,089	1,558	3,511
- claims and benefits	1,485	3,077	1,431	3,059
- movement in technical provisions	(6)	(54)	95	387
- claims handling expenses	32	66	32	65
Reinsurers' share in claims, benefits and movement in technical provisions	**(54)**	**(159)**	**(83)**	**(165)**
In non-life insurance	(54)	(159)	(83)	(165)
Total net insurance claims and benefits	**3,719**	**7,345**	**3,504**	**7,214**

6.9 Fee and commission expenses

Fee and commission expenses	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Costs of card and ATM transactions, including card issue costs	114	202	47	79
Commissions on acquisition of banking clients	19	35	12	19
Fees for the provision of ATMs	(1)	21	8	13
Costs of awards to banking clients	4	7	5	12
Costs of bank transfers and remittances	10	19	6	11
Additional services attached to banking products	7	14	6	11
Brokerage fees	3	8	3	4
Costs of administration of bank accounts	1	2	-	-
Costs of banknote operations	4	7	-	1
Fiduciary activity expenses	5	9	1	1
Other commission	16	29	24	38
Total fee and commission expenses	**182**	**353**	**112**	**189**

6.10 Interest expenses

Interest expenses	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Term deposits	268	541	138	222
Current deposits	103	201	40	64
Outstanding own debt securities	94	190	42	85
Hedge derivatives	2	3	8	16
Loans	3	5	-	-
Repurchase transactions	16	30	14	20
Bank loans contracted by PZU Group companies	3	5	2	3
Other	10	17	6	10
Total interest expenses	**499**	**992**	**250**	**420**

(in millions of PLN)

6.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Consumption of materials and energy	70	144	43	114
Third party services	426	828	325	579
Taxes and charges	23	49	21	41
Employee expenses	1,256	2,425	870	1,552
Depreciation of property, plant and equipment	95	189	59	109
Amortization of intangible assets	82	170	62	112
Other, including:	775	1,558	747	1,452
- commissions in insurance activities	604	1,199	576	1,137
- advertising	72	130	48	75
- remuneration of group insurance administrators in work establishments	51	103	52	105
- other	48	126	71	135
Movement in deferred acquisition expenses	(7)	(48)	(16)	(72)
Administrative, acquisition and claims handling expenses, total	**2,720**	**5,315**	**2,111**	**3,887**

6.12 Other operating expenses

Other operating expenses	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Levy on financial institutions	273	542	169	293
Expenses of the core business of non-insurance and non-banking companies	178	356	151	273
Direct claims handling expenses on behalf of other insurance undertakings	50	103	54	110
Compulsory payments to insurance market institutions and banking market institutions	20	53	18	38
Bank Guarantee Fund	47	277	18	53
Insurance Indemnity Fund	18	35	18	35
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	1	21	1	21
Expenditures for prevention activity	22	31	4	21
Establishment of provisions	90	249 [1)]	89	96
Amortization of intangible assets purchased in company acquisition transactions	87	167	21	41
Recognition of impairment losses for non-financial assets	-	10	8	33
Donations	-	24	12	13
Other	109	218	94	148
Other operating expenses, total	**895**	**2,086**	**657**	**1,175**

[1)] including the establishment of a provision by the banks worth 216 million for guarantees and sureties given.

(in millions of PLN)

6.13 Earnings per share

Earnings per share	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Net profit attributable to the equity holders of the parent company	782	1,425	504	1,438
Weighted average basic and diluted number of common shares	863,374,918	863,442,942	863,521,269	863,516,697
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(148,082)	(80,058)	(1,731)	(6,303)
Basic and diluted earnings (losses) per common share (in PLN)	0.91	1.65	0.58	1.67

In the 6-month period ended 30 June 2018, there were no transactions or events resulting in the dilution of earnings per share.

6.14 Income tax

Total amount of current and deferred tax	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Recognized through profit or loss	(430)	(789)	(200)	(451)
- current tax	(582)	(915)	(413)	(442)
- deferred tax	152	126	213	(9)
Recognized in other comprehensive income (deferred tax)	37	23	(2)	(16)
Total amount of current and deferred tax	**(393)**	**(766)**	**(202)**	**(467)**

Income tax on other comprehensive income items	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Gross other comprehensive income	(142)	(63)	(1)	20
Income tax	37	23	(2)	(16)
Investment financial instruments measured at fair value through other comprehensive income	35	31	n/a	n/a
Measurment of loan receivables from clients	-	(9)	n/a	n/a
Measurement of financial instruments available for sale and cash flow hedging transactions	n/a	n/a	(2)	(16)
Other	2	1	-	-
Net other comprehensive income	**(105)**	**(40)**	**(3)**	**4**

(in millions of PLN)

6.15 Goodwill

Goodwill	30 June 2018	31 December 2017 (restated)
Pekao	1,577	1,577
Alior Bank	746	746
PIM	692	692
Lietuvos Draudimas AB [1]	483	462
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	39	37
Medical companies	101	90
Other	5	5
Total goodwill	**3,864**	**3,830**

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

As a result of the analyses conducted, no impairment losses of goodwill were made in the 6 months ended 30 June 2018, just as in 2017.

6.16 Intangible assets

Intangible assets by type groups	30 June 2018	31 December 2017
Software, licenses and similar assets	1,239	1,282
Trademarks	612	607
Client relations	1,117	1,282
Intangible assets under development	252	251
Other intangible assets	19	21
Total intangible assets	**3,239**	**3,443**

6.17 Other assets

Other assets	30 June 2018	31 December 2017
Reinsurance settlements	105	157
Estimated salvage and subrogation	181	192
Deferred IT expenses	61	63
Accrued direct claims handling receivables	55	60
Inventories	61	73
Accruals under insurance contracts (outside of the PZU Group)	3	58
Prepayments and accruals for taxes on property, means of transport and land	22	-
Accruals for the costs of allowances to the Company Social Benefit Fund	25	-
Other assets	100	89
Total other assets	**613**	**692**

(in millions of PLN)

6.18 Property, plant and equipment

Property, plant and equipment by groups by type	30 June 2018	31 December 2017 (restated)
Plant and machinery	505	555
Means of transport	121	127
Property, plant and equipment under construction	113	176
Real property	2,161	2,215
Other property, plant and equipment	237	214
Total property, plant and equipment	**3,137**	**3,287**

6.19 Loan receivables from clients

Loan receivables from clients	30 June 2018	31 December 2017
Measured at amortized cost	172,113	169,457
Measured at fair value through other comprehensive income	1,203	n/a
Measured at fair value through profit or loss	335	n/a
Total receivables from clients on account of loans	**173,651**	**169,457**

The amount of allowances for expected credit losses as at 30 June 2018 was PLN 9,075 million (impairment losses as at 31 December 2017 were PLN 8,839 million).

The allowance for expected credit losses pertains to loan receivables from clients measured at fair value through other comprehensive income is recognized in the line item "Revaluation reserve" and it does not lower the carrying amount of assets. The carrying amount of this allowance as at 30 June 2018 is PLN 14 million.

Loan receivables from clients	30 June 2018	31 December 2017
Retail segment	**93,159**	**89,407**
Operating loans	260	278
Consumer finance	26,343	26,185
Consumer finance loans	2,283	2,129
Loan to purchase securities	71	109
Overdrafts in credit card accounts	1,127	1,297
Loans for residential real estate	62,006	58,456
Other mortgage loans	831	832
Other receivables	238	121
Business segment	**80,491**	**80,050**
Operating loans	34,567	33,879
Car financing loans	54	80
Investment loans	26,327	26,108
Receivables purchased (factoring)	5,722	4,576
Overdrafts in credit card accounts	134	179
Loans for residential real estate	26	24
Other mortgage loans	7,070	8,465
Financial leases	5,889	5,086
Other receivables	702	1,653
Total receivables from clients on account of loans	**173,651**	**169,457**

(in millions of PLN)

6.20 Financial derivatives

Derivatives – assets	30 June 2018	31 December 2017
Interest rate derivatives	**1,552**	**1,699**
Instruments designated as fair value hedges – unquoted instruments, including:	33	16
- SWAP transactions	33	16
Instruments designated as cash flow hedges – unquoted instruments, including:	183	289
- SWAP transactions	183	289
Instruments carried as held for trading, including:	1,336	1,394
Unquoted instruments, including:	1,336	1,394
- FRA transactions	2	1
- SWAP transactions	1,324	1,381
- call options (purchase)	8	10
- put options (sale)	2	2
Total foreign exchange derivatives	**542**	**444**
Instruments designated as cash flow hedges – unquoted instruments, including:	-	42
- SWAP transactions	-	42
Instruments carried as held for trading, including:	542	402
Instruments quoted on a regulated market, including:	11	19
- forward contracts	7	19
- put options (sale)	4	-
Unquoted instruments, including:	531	383
- forward contracts	170	175
- SWAP transactions	283	164
- call options (purchase)	66	27
- put options (sale)	12	17
Derivatives related to equity prices – carried as held for trading, total	**94**	**104**
Unquoted instruments, including:	94	104
- call options (purchase)	92	102
- put options (sale)	2	2
Derivatives related to commodity prices – carried as held for trading, total	**91**	**104**
Instruments quoted on a regulated market, including:	15	10
- forward contracts	15	10
Unquoted instruments, including:	76	94
- forward contracts	10	19
- SWAP transactions	35	59
- call options (purchase)	26	15
- put options (sale)	5	1
Derivatives – assets, total	**2,279**	**2,351**

(in millions of PLN)

Derivatives – liabilities	30 June 2018	31 December 2017
Interest rate derivatives	**2,477**	**2,797**
Instruments designated as fair value hedges – unquoted instruments, including:	148	186
- SWAP transactions	148	186
Instruments designated as cash flow hedges – unquoted instruments, including:	800	682
- SWAP transactions	800	682
Instruments carried as held for trading, including:	1,529	1,929
Unquoted instruments, including:	1,529	1,929
- FRA transactions	1	-
- SWAP transactions	1,521	1,921
- call options (purchase)	3	2
- put options (sale)	4	6
Total foreign exchange derivatives	**512**	**517**
Instruments designated as cash flow hedges – unquoted instruments, including:	73	-
- SWAP transactions	73	-
Instruments carried as held for trading, including:	439	517
Instruments quoted on a regulated market, including:	19	1
- forward contracts	19	1
Unquoted instruments, including:	420	516
- forward contracts	215	221
- SWAP transactions	135	256
- call options (purchase)	30	8
- put options (sale)	40	31
Derivatives related to equity prices – carried as held for trading, total	**55**	**57**
Unquoted instruments, including:	55	57
- call options (purchase)	-	10
- put options (sale)	55	47
Derivatives related to commodity prices – carried as held for trading, total	**80**	**103**
Instruments quoted on a regulated market, including:	8	21
- forward contracts	8	21
Unquoted instruments, including:	72	82
- forward contracts	8	7
- SWAP transactions	35	59
- call options (purchase)	15	8
- put options (sale)	14	8
Derivatives – liabilities, total	**3,124**	**3,474**

(in millions of PLN)

6.21 Investment financial assets

Investment financial assets - IFRS 9	30 June 2018		
	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss
Equity instruments	**n/a**	**632**	**1,435**
Quoted on a regulated market	n/a	412	1,385
Not quoted on a regulated market	n/a	220	50
Participation units and investment certificates	**n/a**	**n/a**	**4,490**
Quoted on a regulated market	n/a	n/a	133
Not quoted on a regulated market	n/a	n/a	4,357
Debt securities	**32,191**	**41,457**	**14,384**
Government securities	24,472	32,008	13,929
Domestic	24,350	30,288	11,860
Fixed rate	23,010	17,346	9,308
Floating rate	1,340	12,942	2,552
Foreign	122	1,720	2,069
Fixed rate	122	1,720	2,055
Floating rate	-	-	14
Other	7,719	9,449	455
Quoted on a regulated market	529	963	227
Fixed rate	220	578	220
Floating rate	309	385	7
Not quoted on a regulated market	7,190	8,486	228
Fixed rate	850	3,900	2
Floating rate	6,340	4,586	226
Other, including:	**11,321**	**-**	**-**
Buy-sell-back transactions	3,339	-	-
Term deposits with credit institutions	3,784	-	-
Loans	4,198	-	-
Investment financial assets, total	**43,512**	**42,089**	**20,309**

The allowance for expected credit losses on financial assets measured at amortized cost as at 30 June 2018 is PLN 140 million (including PLN 82 million pertaining to debt securities, PLN 49 million for loans and PLN 9 million for term deposits with credit institutions).

The allowance for expected credit losses pertaining to debt securities measured at fair value through other comprehensive income is recognized in the line item "Revaluation reserve" and it does not lower the carrying amount of assets. The carrying amount of this allowance as at 30 June 2018 is PLN 34 million.

Equity instruments measured at fair value through other comprehensive income	30 June 2018	31 December 2017
Quoted on a regulated market	412	n/a
Grupa Azoty SA	355	n/a
Polimex-Mostostal SA	43	n/a
Other	14	n/a
Not quoted on a regulated market	220	n/a
Biuro Informacji Kredytowej SA	181	n/a
PSP sp. z o.o.	21	n/a
Krajowa Izba Rozliczeniowa SA	13	n/a
Other	5	n/a
Equity instruments measured at fair value through other comprehensive income, total	**632**	**n/a**

(in millions of PLN)

Investment financial assets - IAS 39	31 December 2017				
	held to maturity	available for sale	at fair value – classified upon first recognition	held for trading	loans
Equity instruments	**n/a**	**664**	**1,947**	**4,617**	**n/a**
Quoted on a regulated market	n/a	262	1,781	562	n/a
Not quoted on a regulated market	n/a	402	166	4,055	n/a
Debt securities	**21,237**	**47,855**	**4,703**	**8,976**	**13,623**
Government securities	21,006	33,649	4,664	8,699	1
Domestic	20,641	32,547	4,351	6,702	-
Fixed rate	19,277	20,753	4,054	4,834	-
Floating rate	1,364	11,794	297	1,868	-
Foreign	365	1,102	313	1,997	1
Fixed rate	365	1,102	313	1,964	1
Floating rate	-	-	-	33	-
Other	231	14,206	39	277	13,622
Quoted on a regulated market	102	694	39	175	977
Fixed rate	102	694	39	175	281
Floating rate	-	-	-	-	696
Not quoted on a regulated market	129	13,512	-	102	12,645
Fixed rate	31	13,077 [1)]	-	-	1,181
Floating rate	98	435	-	102	11,464
Other, including:	-	-	-	-	**6,424**
Buy-sell-back transactions	-	-	-	-	885
Term deposits with credit institutions	-	-	-	-	1,841
Loans	-	-	-	-	3,698
Investment financial assets, total	**21,237**	**48,519**	**6,650**	**13,593**	**20,047**

[1)] including NBP money bills in the amount of PLN 13,066 million.

The impairment loss on financial assets held to maturity on 31 December 2017 was PLN 1 million.

The impairment loss on financial assets available for sale on 31 December 2017 was PLN 34 million.

The impairment loss on financial assets classified as belonging to the loan portfolio on 31 December 2017 was PLN 116 million.

(in millions of PLN)

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

Country	30 June 2018	31 December 2017
United States	987	833
Lithuania	526	431
Germany	332	449
Romania	270	106
Hungary	152	195
Croatia	138	98
Indonesia	132	199
Turkey	115	150
South Africa	108	133
Russia	82	44
Bulgaria	76	55
Peru	74	84
Latvia	68	64
Argentina	63	101
Columbia	63	110
Ukraine	62	62
Philippines	51	38
Brazil	49	105
Other	563 [1]	521 [2]
Total	**3,911**	**3,778**

[1] The Other line item states the countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million: Australia, Azerbaijan, Belgium, Chile, Montenegro, Denmark, Dominican Republic, Egypt, Ecuador, France, Greece, Guatemala, Spain, the Netherlands, Ireland, Jamaica, Jordan, Kazakhstan, Kenya, Costa Rica, Morocco, Mexico, Nigeria, Oman, Pakistan, Panama, Paraguay, Senegal, Serbia, Slovenia, Sri Lanka, Sweden, Trinidad and Tobago, Uruguay, United Kingdom, Vietnam, Italy, Ivory Coast, Zambia

[2] The Other line item shows: Azerbaijan, Chile, Dominican Republic, Ecuador, Philippines, Guatemala, Spain, Ireland, Jamaica, Jordan, Kazakhstan, Kenya, Costa Rica, Morocco, Nigeria, Oman, Pakistan, Panama, Paraguay, Russia, Senegal, Serbia, Slovenia, Sri Lanka, Sweden, Trinidad and Tobago, Uruguay, United Kingdom, Italy, Ivory Coast, Zambia

Exposure to debt securities issued by corporations, local government units and central banks

Issuer	30 June 2018	31 December 2017
Companies from the WIG-Banks Index	483	563
Companies from the WIG-Chemicals Index	9	9
Companies from the WIG-Energy Index	1,335	1,886
Companies from the WIG-Fuels Index	295	666
Mining and quarrying (including companies included in the WIG-Mining index)	192	644
Manufacturing	1,195	1,159
Transportation and storage	1,613	1,904
Public utility services	629	611
Privately-held domestic banks	-	20
Foreign banks	55	61
Domestic local governments	6,116	6,092
National Bank of Poland	3,900	13,097
Other	1,801	1,663
Total	**17,623**	**28,375**

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

6.21.1.1. Capital market

Global stock indices continued their strong growth in early 2018. During that time, markets were discounting the positive impact of the US tax reform on the future earnings of US companies. However, early February saw the first significant adjustment in global markets in a long time, driven mainly by investors' fears of accelerated normalization of the FED's monetary policy. In the following months, growth returned to global stock markets, but it was slower and more volatile than before. As a result, the American stock exchange index S&P500 ended the first half of the year up slightly (+1.15%), but the German DAX index declined significantly (-4.92%).

Between the end of December 2017 and the end of June this year, the WIG and WIG20 indices fell 12.22% and 13.23%, respectively. This was caused mainly by the negative sentiment towards emerging economies. The rising cost pressure, including salary pressure, additionally contributed to deterioration in corporate financial results in Q1.

6.21.1.2. Interest rate risk and inflation

In early 2018, treasury bond yields on the underlying markets continued to post dynamic growth. Higher yields resulted from excellent economic activity data, loosening of fiscal policy in the USA, stronger expectations of interest rate hikes by the Fed and the earlier wrapping up of the quantitative easing (QE) program by ECB. However from mid-February, driven by concerns about the escalation of the trade conflict between the USA and China and the possible slowdown in economic growth in the Eurozone, the yields of German bonds started to fall. The uptick in yields in the USA lasted until mid-May until they broke through the 3.10% threshold. After that, they started to trend down slowly, driven by the heightened global aversion to risk related to the escalation of trade conflicts.

At the end of January, the yield on Polish 10-year Treasury bonds temporarily shot up to 3.60%, following the underlying markets. The robust data from the Polish economy, that increased the likelihood of inflation growth in the future, could also have contributed to this. In February, however, the yield on Polish 10-year Treasury bonds started to fall (in mid-April it even dipped below 3%). This was caused by several factors. First, the yields of German bond, with which Polish bonds are strongly correlated, fell. Additionally, the expected magnitude of interest rate growth fell in light of much lower than expected inflation readings and the consistently dovish rhetoric of the Monetary Policy Council. In turn, the credit risk of the Polish economy continued to be relatively low, inter alia, having regard for the very strong fiscal and payment position. As a result, the difference between the yields on Polish and German 10-year Treasury bonds in mid-April even dropped below 250 basis points (from 288 basis points at the end of 2017). Despite that, after the downturn on the financial markets of emerging economies, we have observed an outflow of capital also from Poland in the latter months of the first half of the year. The heightened aversion to risk also resulted from the uncertainty related to US trade policy. As a result, at the end of June Polish 10-year bond yields rose to 3.21% and the spread to German bonds increased to 290 bps.

6.21.1.3. FX rates

In the first two months of 2018, the US dollar weakened versus the euro, while already in mid-April the US currency started to strengthen visibly. Concerns were starting to grow about economic growth and the sustainability of low inflation in the euro area and the US economy was showing signs of a stronger recovery, justifying the continuing increases in interest rates. The Polish zloty also strengthened until mid-April but then, following the financial market downturn in emerging economies, it began to weaken. When risk aversion grows, investors reduce the share of risky assets in their portfolios without assessing in detail the foundations of individual economies, and the Polish currency market is also more liquid in comparison to other economies of the region. At the end of June, the EUR/PLN exchange rate was 4.36, indicating a weakening of the Polish zloty against the EUR by 4.6% in the first half of the year. On the other hand, the USD/PLN exchange rate was PLN 3.74 at the end of June – the Polish zloty weakened by 7.5% in relation to the USD in that period.

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

In the 6-month period ended 30 June 2018, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

6.22 Fair value

6.22.1. Description of valuation techniques

6.22.1.1. Debt securities and loans

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

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

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

6.22.1.2. Equity-based financial assets

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

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

6.22.1.3. Derivatives

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

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

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

6.22.1.4. Loan receivables from clients

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

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

6.22.1.5. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

6.22.1.6. Financial liabilities

Liabilities under deposits

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

Liabilities on the issue of own debt securities and subordinated liabilities

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

6.22.2. Fair value hierarchy

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

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
- Level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, including free land free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);

  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method;
  - loan receivables from clients and liabilities to clients under deposits;
  - options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Investment property and property available for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
	Monthly rental rate per m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If historical issue spread above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services	

(in millions of PLN)

6.22.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 June 2018				31 December 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	28,637	8,425	5,027	42,089	n/a	n/a	n/a	n/a
Equity instruments	412	-	220	632	n/a	n/a	n/a	n/a
Debt securities	28,225	8,425	4,807	41,457	n/a	n/a	n/a	n/a
Investment financial assets measured at fair value through profit or loss	13,074	6,942	293	20,309	n/a	n/a	n/a	n/a
Equity instruments	1,316	4	115	1,435	n/a	n/a	n/a	n/a
Participation units and investment certificates	133	4,357	-	4,490	n/a	n/a	n/a	n/a
Debt securities	11,625	2,581	178	14,384	n/a	n/a	n/a	n/a
Loan receivables from clients	-	-	1,538	1,538	n/a	n/a	n/a	n/a
Measured at fair value through other comprehensive income	-	-	1,203	1,203	n/a	n/a	n/a	n/a
Measured at fair value through profit or loss	-	-	335	335	n/a	n/a	n/a	n/a
Financial derivatives	26	2,156	97	2,279	29	2,222	100	2,351
Financial assets available for sale	n/a	n/a	n/a	n/a	30,027	17,081	1,411	48,519
Equity instruments	n/a	n/a	n/a	n/a	210	156	298	664
Debt securities	n/a	n/a	n/a	n/a	29,817	16,925	1,113	47,855
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	n/a	n/a	6,143	464	43	6,650
Equity instruments	n/a	n/a	n/a	n/a	1,802	127	18	1,947
Debt securities	n/a	n/a	n/a	n/a	4,341	337	25	4,703
Financial instruments measured at fair value through profit or loss – held for trading	n/a	n/a	n/a	n/a	7,363	6,133	97	13,593
Equity instruments	n/a	n/a	n/a	n/a	526	4,091	-	4,617
Debt securities	n/a	n/a	n/a	n/a	6,837	2,042	97	8,976
Investment property	-	157	1,699	1,856	-	151	2,204	2,355
Liabilities								
Derivatives	20	3,046	58	3,124	22	3,400	52	3,474
Liabilities to members of consolidated mutual funds	-	316	-	316	-	420	-	420
Investment contracts for the client's account and risk *(unit-linked)*	-	291	-	291	-	312	-	312
Liabilities on borrowed securities (short sale)	432	-	-	432	737	13	-	750

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period from 1 January to 30 June 2018	**Investment financial assets measured at fair value through other comprehensive income**		**Investment financial assets measured at fair value through profit or loss**		**Financial derivatives**	**Investment properties**	**Derivatives – liabilities measured at fair value**
	Equity	**Debt**	**Equity**	**Debt**			
Balance at the beginning of the period – classification at the time of applying IFRS9	**221**	**4,855**	**95**	**163**	**100**	**2,204**	**52**
Purchase/opening of the position	-	38	-	196	11	31	11
Reclassification from own properties	-	-	-	-	-	9	-
Profit or loss recognized in the profit and loss account as:	-	17	9	3	(12)	65	(2)
- net investment income	-	17	5	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	4	3	(12)	65	(2)
Profits or losses recognized in other comprehensive income	(3)	8	-	-	-		-
Sale and settlements		(290)	-	(184)	(2)	(9)	(3)
Reclassification to assets held for sale	-	-	-	-	-	(601)	-
Reclassification from Level I			7	-	-	-	-
Reclassification from Level II	-	189	-	-	-	-	-
Reclassification to Level II		(10)	-	-	-	-	-
Foreign exchange differences	2	-	4	-	-	-	-
Balance at the end of the period	**220**	**4,807**	**115**	**178**	**97**	**1,699**	**58**

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the year ended 31 December 2017	Financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon first recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment properties	Financial liabilities – Derivatives
	Equity	Debt	Equity	Debt	Debt	Derivatives		
Balance at the beginning of the period	38	614	17	25	135	53	1,589	26
Purchase/opening of the position	6	-	21	-	290	32	63	23
Reclassification from Level II	-	662 [1)]	-	-	4	-	-	-
Reclassification from own properties and properties held for sale	-	-	-	-	-	-	830	-
Profit or loss recognized in the profit and loss account as:	-	31	2	2	3	37	(102)	19
- net investment income	-	31	5	-	-	(1)	-	-
- net result on realization and impairment losses on investments	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(3)	2	3	38	(102)	19
Net movement in fair value of assets and liabilities measured at fair value, recognized in other comprehensive income	(10)	(26)	-	-	-	-	-	-
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	(196)	-
Change in the composition of the Group	267	252	-	-	45	-	24	-
Foreign exchange translation differences	(3)	-	-	-	-	-		-
Sale and settlements	-	(437)	(22)	(2)	(380)	(22)	(4)	(16)
Other	-	17	-	-	-	-	-	-
Balance at the end of the period	**298**	**1,113**	**18**	**25**	**97**	**100**	**2,204**	**52**

[1)] Municipal bonds were reclassified to level III; for those bonds, a parameter implied from historical data (credit spread) used in the valuation model exerts a significant influence on measurement.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period from 1 January to 30 June 2017	Financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon first recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment properties	Financial liabilities – Derivatives
	Equity	Debt	Equity	Debt	Debt	Derivatives		
Balance at the beginning of the period	38	614	17	25	135	53	1,589	26
Purchase/opening of the position	1	-	21	-	141	14	19	12
Profit or loss recognized in the profit and loss account as:	-	3	1	1	2	31	(77)	16
- net investment income	-	-	5	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(4)	1	2	31	(77)	16
Net movement in fair value of assets and liabilities measured at fair value, recognized in other comprehensive income	-	(1)	-	-	-	-	-	-
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	(5)	-
Change in the composition of the Group	246	252	-	-	45	-	24	(16)
Sale and settlements	-	(371)	(21)	-	(71)	(21)	-	-
Balance at the end of the period	**285**	**497**	**18**	**26**	**252**	**77**	**1,550**	**38**

(in millions of PLN)

6.22.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2018				31 December 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Loan receivables from clients measured at amortized cost	-	-	171,150	171,150	-	-	169,393	169,393
Debt securities measured at amortized cost	20,888	667	12,779	34,334	n/a	n/a	n/a	n/a
Entities measured by the equity method – EMC	-	16	-	16	-	20	-	20
Financial assets held to maturity	n/a	n/a	n/a	n/a	17,631	305	5,582	23,518
Debt securities classified in the loans portfolio	n/a	n/a	n/a	n/a	1	8,153	5,500	13,654
Buy-sell-back transactions	-	465	2,874	3,339	-	553	333	886
Term deposits with credit institutions	-	1,683	2,101	3,784	-	838	1,005	1,843
Loans	-	-	4,311	4,311	-	-	3,744	3,744
Liabilities								
Liabilities to banks	-	1,374	4,260	5,634	-	1,161	4,092	5,253
Liabilities to clients	-	-	198,027	198,027	-	-	201,605	201,605
Liabilities on the issue of own debt securities	-	3,951	7,089	11,040	-	2,808	6,627	9,435
Subordinated liabilities	-	1,257	4,061	5,318	-	1,257	4,108	5,365

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

In the 6-month period ended 30 June 2018, 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.

6.22.2.4. Reclassification between fair value hierarchy levels

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

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

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

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

In the 6-month period ended 30 June 2018, the following reclassifications of assets between fair value levels were made:

- treasury bonds for which active market quotations were available were reclassified from Level II to Level I;
- municipal bonds measured using market information about prices of comparable financial instruments and a derivative equity market transaction were reclassified from Level III to Level II because the unobservable factor (correlation) had no significant impact on measurement;
- corporate and municipal bonds were reclassified from Level II to Level III for which the impact exerted by the estimated credit parameters on the measurement was material and capital market derivatives for which the impact of the estimated parameter (correlation) exerted a significant impact on the measurement.

In 2017, PLN-denominated treasury bonds, for which active market quotations were available, were reclassified from Level II to Level I.

(in millions of PLN)

6.23 Receivables

Receivables – carrying amount	30 June 2018	31 December 2017
Receivables on direct insurance, including:	2,745	2,482
- receivables from policyholders	2,483	2,320
- receivables from insurance intermediaries	111	134
- other receivables	151	28
Reinsurance receivables	81	68
Other receivables	7,006	6,546
- receivables from disposal of securities and security deposits [1)]	5,293	4,658
- receivables on account of payment card settlements	585	716
- trade receivables	319	295
Receivables from the state budget, other than corporate income tax receivables	169	100
- receivables from debt factoring	6	68
- prevention settlements	46	58
- receivables from direct claims handling on behalf of other insurance undertakings	25	29
- disputed settlements	8	7
- receivables for acting as an emergency adjuster	14	12
- receivables on account of Corporate Income Tax	26	57
- receivables from purchase price allocation of the acquisition of Bank BPH's Core Business	-	94
- receivables from security and bid deposits	94	91
- other	421	361
Total receivables	**9,832**	**9,096**

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

As at 30 June 2018 and 31 December 2017, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

The amount of allowances for expected credit losses as at 30 June 2018 was PLN 788 million (impairment losses as at 31 December 2017 totaled PLN 649 million).

(in millions of PLN)

6.24 Extent of exposure to credit risk

6.24.1. Investment activity

The subsequent tables present the exposure to credit risk for assets bearing credit risk in the various categories of Fitch ratings (if there is no Fitch rating then a Standard&Poor's or Moody's rating is used instead). The credit risk exposure arising from repo transactions is presented as an exposure to the issuer of the securities taken as collateral.

The table does not include loan receivables from clients and receivables due under insurance contracts. This ensues from the considerable distribution of these asset portfolios meaning, among others, that a significant portion of the receivables comes from entities and private individuals that do not have ratings.

Assets exposed to credit risk at 30 June 2018	AAA	AA	A	BBB	BB	No rating	Assets at the client's risk	Total
Debt securities	1,314	17	67,328	1,789	439	15,929	1,216	88,033
- at amortized cost	-	-	24,829	440	14	6,908	-	32,191
- at fair value through profit or loss	378	6	10,929	960	372	524	1,216	14,384
- at fair value through other comprehensive income	936	11	31,570	389	53	8,498	-	41,457
Term deposits with credit institutions and buy-sell-back transactions	-	75	1,730	3,920	116	1,206	75	7,123
Loans	-	-	-	204	639	3,355	-	4,198
Derivatives [1)]	-	108	821	312	1	1,000	36	2,279
Reinsurers' share in claims provisions	5	175	502	-	-	138	-	820
Reinsurance receivables	-	11	50	-	-	20	-	81
Total	**1,319**	**386**	**70,431**	**6,226**	**1,195**	**21,649**	**1,327**	**102,534**

Assets exposed to credit risk at 31 December 2017	AAA	AA	A	BBB	BB	No rating	Assets at the client's risk	Total
Debt securities	560	725	65,897	2,712	598	24,612	1,290	96,394
- held to maturity	-	-	20,941	59	58	179	-	21,237
- available for sale	-	725	34,865	289	41	11,935	-	47,855
- measured at fair value through profit or loss	560	-	9,964	962	499	404	1,290	13,679
- loans	-	-	127	1,402	-	12,094	-	13,623
Term deposits with credit institutions and buy-sell-back transactions	-	8	960	903	8	759	88	2,726
Other loans	-	-	-	-	282	3,416	-	3,698
Derivatives	-	127	952	212	-	1,020	40	2,351
Reinsurers' share in claims provisions	-	156	452	-	-	167	-	775
Reinsurance receivables	-	9	25	8	-	26	-	68
Total	**560**	**1,025**	**68,286**	**3,835**	**888**	**30,000**	**1,418**	**106,012**

(in millions of PLN)

The table below presents the credit risk ratios used by the PZU Group to measure credit risk.

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating
Ratio 30 June 2018	0.71%	0.75%	1.34%	3.58%	12.77%	24.95%
Ratio 31 December 2017	0.72%	0.77%	1.41%	3.76%	13.33%	25.43%

The quantity of credit risk for assets for which the PZU Group incurs risk on 30 June 2018 was PLN 6,837 million (at 31 December 2017: PLN 8,866 million; while if the ratios on 30 June 2018 are applied this figure would be PLN 8,806 million).

6.25 Assets held for sale

Assets held for sale by classification before transfer	30 June 2018	31 December 2017
Groups held for sale	**127**	**113**
Assets	129	116
Investment property	99	90
Receivables	1	1
Deferred tax assets	5	6
Cash and cash equivalents	22	17
Other assets	2	2
Liabilities related directly to assets classified as held for sale	2	3
Other assets held for sale	**835**	**201**
Property, plant and equipment	84	104
Investment property	751	97
Assets and groups of assets held for sale	**964**	**317**
Liabilities related directly to assets classified as held for sale	**2**	**3**

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

(in millions of PLN)

6.26 Technical provisions

Technical provisions	30 June 2018			31 December 2017		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**23,062**	**(1,354)**	**21,708**	**22,000**	**(1,250)**	**20,750**
Provision for unearned premiums	8,486	(528)	7,958	7,877	(466)	7,411
Provision for unexpired risk	14	-	14	37	(3)	34
Provisions for outstanding claims and benefits	8,748	(626)	8,122	8,301	(585)	7,716
- for reported claims	3,226	(566)	2,660	3,187	(533)	2,654
- for claims not reported (IBNR)	3,658	(50)	3,608	3,348	(41)	3,307
- for claims handling expenses	1,864	(10)	1,854	1,766	(11)	1,755
Provision for the capitalized value of annuities	5,805	(194)	5,611	5,776	(190)	5,586
Provisions for bonuses and discounts for insureds	9	(6)	3	9	(6)	3
Technical provisions in life insurance	**22,521**	**-**	**22,521**	**22,558**	**-**	**22,558**
Provision for unearned premiums	95	-	95	94	-	94
Life insurance provision	16,165	-	16,165	16,060	-	16,060
Provisions for outstanding claims and benefits	564	-	564	597	-	597
- for reported claims	138	-	138	153	-	153
- for claims not reported (IBNR)	419	-	419	437	-	437
- for claims handling expenses	7	-	7	7	-	7
Provisions for bonuses and discounts for insureds	2	-	2	5	-	5
Other technical provisions	268	-	268	287	-	287
Life insurance technical provisions if the policyholder bears the investment risk	5,427	-	5,427	5,515	-	5,515
Total technical provisions	**45,583**	**(1,354)**	**44,229**	**44,558**	**(1,250)**	**43,308**

The amount of impairment losses on reinsurers' share in technical provisions as at 30 June 2018 was PLN 12 million (as at 31 December 2017: PLN 12 million).

(in millions of PLN)

6.27 Other provisions

Movement in other provisions in the period 1 January - 30 June 2018	As at 31 December 2017	Application of IFRS9	Balance at the beginning of the period	Increase	Utilization	Reversal	Other changes	Balance at the end of the period
Provision for restructuring expenses	63	-	63	-	(25)	(3)	-	35
Provision for disputed claims and potential liabilities	82	-	82	24	(7)	(3)	-	96
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	57	-	57	-	-	-	17	74
Provision for the costs of closing the Graphtalk project	6	-	6	-	-	-	-	6
Provisions for guarantees and sureties given	260	153	413	216	-	(233)	1	397
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	9	-	-	-	-	9
Other	20	-	20	9	(2)	-	-	27
Total other provisions	**497**	**153**	**650**	**249**	**(34)**	**(239)**	**18**	**644**

Movement in other provisions in the year ended 31 December 2017	Balance at the beginning of the period	Increase	Utilization	Reversal	Change in the composition of the Group	Other changes	Balance at the end of the period
Provision for restructuring expenses	252	61	(222)	(28)	-	-	63
Provision for disputed claims and potential liabilities	11	16	(7)	(1)	56	7	82
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	58	-	-	(1)	-	-	57
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	-	6
Provisions for guarantees and sureties given	18	76	-	(48)	214	-	260
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	-	-	-	-	9
Other	13	26	(4)	(3)	24	(36)	20
Total other provisions	**367**	**179**	**(233)**	**(81)**	**294**	**(29)**	**497**

Movement in other provisions in the period 1 January - 30 June 2017	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combinations	Other changes	Balance at the end of the period
Provision for restructuring expenses	252	61	(102)	(9)	-	-	202
Provision for disputed claims and potential liabilities	11	1	-	(2)	55	2	67
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	58	-	-	(1)	-	-	57
Provisions for guarantees and sureties given	18	26	-	(21)	215	-	238
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	-	6
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	-	-	-	-	9
Other	13	8	(1)	(3)	24	-	41
Total other provisions	**367**	**96**	**(103)**	**(36)**	**294**	**2**	**620**

[1] The main component of the line item entitled "Provision for penalties imposed by the Office of Competition and Consumer Protection" is explained in section 15.2.

(in millions of PLN)

Provisions for guarantees and sureties given

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

6.28 Financial liabilities

Financial liabilities	**30 June 2018**	**31 December 2017** (restated)
Financial liabilities measured at fair value	**4,163**	**4,956**
Derivatives held for trading	2,103	2,606
Cash flow hedge derivatives	873	682
Fair value hedge derivatives	148	186
Liabilities on borrowed securities (short sale)	432	750
Investment contracts for the client's account and risk (unit-linked)	291	312
Liabilities to members of consolidated mutual funds	316	420
Financial liabilities measured at amortized cost	**221,307**	**219,594**
Liabilities to banks	5,675	5,323
Current deposits	877	996
One-day deposits	658	372
Term deposits	-	311
Loans received	3,616	3,380
Other liabilities	524	264
Liabilities to clients	197,771	198,163
Current deposits	120,855	122,956
Term deposits	75,945	74,453
Other liabilities	971	754
Liabilities on the issue of own debt securities	10,949	9,610
Subordinated liabilities	5,316	5,319
Liabilities on account of repurchase transactions	1,552	1,167
Investment contracts with guaranteed and fixed terms and conditions	-	1
Finance lease liabilities	44	11
Total financial liabilities	**225,470**	**224,550**

6.28.1. Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 June 2018 (in PLN m)	Carrying amount 31 December 2017 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,278	2,285
Liabilities classified as Pekao's own funds						
Subordinated bonds – Pekao	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,257	1,257
Liabilities classified as Alior Bank's own funds						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	44	42
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	225	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	196	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	6 December 2015 6 December 2021	147	147
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	605	605
Meritum Bank B series bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	68	68
Meritum Bank C series bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	81	80
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	45	43
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	150	150
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	70	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	150	151
Subordinated liabilities					**5,316**	**5,319**

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

6.28.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 June 2018	31 December 2017 (restated)
Bonds of PZU Finance AB (publ.)	3,750	3,478
Alior Bank series J bonds	253	253
Pekao bonds	1,279	90
Certificates of deposit	4,452	4,541
Covered bonds	1,215	1,248
Liabilities on the issue of own debt securities	**10,949**	**9,610**

(in millions of PLN)

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

Bonds classified as measured at amortized cost

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

6.29 Other liabilities

Other liabilities	30 June 2018	31 December 2017 (restated)
Accrued expenses	**1,512**	**1,462**
Accrued expenses of agency commissions	346	336
Accrued sales commission expenses in group insurance	5	8
Accrued payroll expenses	150	160
Accrued reinsurance expenses	356	367
Accrued employee bonuses	308	320
Other	347	271
Deferred revenue	**335**	**354**
Other liabilities	**12,458**	**7,280**
Liabilities due under transactions on financial instruments	3,864	1,772
Liabilities to banks for payment documents cleared in interbank clearing systems	1,423	2,125
Liabilities on direct insurance	869	840
Liabilities on account of payment card settlements	465	437
Regulatory settlements	221	151
Liabilities for contributions to the Bank Guarantee Fund	243	80
Reinsurance liabilities	187	140
Estimated non-insurance liabilities	72	126
Liabilities to employees	130	163
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	107	121
Trade liabilities	203	320
Current income tax liabilities	348	421
Liabilities to the state budget other than for income tax	114	110
Liabilities on account of donations	25	28
Liabilities on account of non-market lease contracts	9	14
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	16	17
Insurance Indemnity Fund	17	16
Liabilities for direct claims handling	12	14
Subsidiaries' dividend-related liabilities to minority shareholders	1,659	-
Liabilities to PZU shareholders for dividends	2,161	3
Other	313	382
Other liabilities, total	**14,305**	**9,096**

(in millions of PLN)

7. Financial assets securing liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	30 June 2018	31 December 2017
Carrying amount of financial assets pledged as collateral for liabilities	10,082	10,421
Repurchase transactions	1,551	1,166
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,099	1,348
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	70	44
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	118	73
Lombard and technical credit	4,582	4,697
Other loans	595	652
Issue of covered bonds	1,514	1,577
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	47	52
Derivative transactions	506	812
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**10,082**	**10,421**

8. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2018	31 December 2017
Contingent assets, including:	5	6
- guarantees and sureties received	5	6
Contingent liabilities	59,604	58,978
- for renewable limits in settlement accounts and credit cards	13,763	14,536
- for loans in tranches	29,470	29,766
- guarantees and sureties given	9,049	7,574
- disputed insurance claims	537	711
- other disputed claims	212	212
- other, including:	6,573	6,179
- guaranteeing securities issues	3,867	3,492
- factoring	853	899
- intra-day limit	827	844
- letters of credit and commitment letters	871	818
- potential liabilities under loan agreements concluded by the Armatura Group	33	30

9. Equity management

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

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

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

The capital management policy rests on the following principles:

- the PZU Group's capital management (including excess capital) is conducted at the level of PZU as the parent company;
- sustain target solvency ratios at the level of 200% for the PZU Group, PZU and PZU Życie (according to Solvency II);
- maintain the PZU Group's financial leverage ratio at a level no higher than 0.35;

- ensure funds for growth and acquisitions in the coming years;
- PZU will not issue any new shares for the duration of this Policy.

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below;

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

External capital requirements

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

Pursuant to art. 412 section 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2017 report published on 14 June 2018 is available online at https://www.pzu.pl/relacje-inwestorskie/raporty. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking was subject to audit by an audit firm.

Irrespective of the above, some PZU Group entities are obligated to comply with their own capital requirements imposed by the relevant legal regulations.

10. Segment reporting

10.1 Reportable segments

10.1.1. Key classification criterion

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

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

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

10.1.2. 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.

10.2 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.

10.3 Segment's measure of profit

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

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

10.4 Accounting policies applied according to PAS

10.4.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting are presented in detail in the PZU's standalone financial statements for 2017.

PZU's 2017 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

10.4.2. PZU Życie

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

(in millions of PLN)

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

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

10.5 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.

10.6 Quantitative data

Corporate insurance (non-life insurance)	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Gross written premium – external	893	1,520	753	1,379
Gross written premium – cross-segment	2	1	(2)	2
Gross written premiums	**895**	**1,521**	**751**	**1,381**
Movement in provision for unearned premiums and gross provision for unexpired risks	(216)	(166)	(158)	(247)
Gross earned premium	**679**	**1,355**	**593**	**1,134**
Reinsurers' share in gross written premium	(251)	(290)	(171)	(250)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	153	94	84	83
Net earned premium	**581**	**1,159**	**506**	**967**
Investment income, including:	34	63	26	40
external operations	34	63	26	40
intersegment operations	-	-	-	-
Other net technical income	9	29	12	36
Income	**624**	**1,251**	**544**	**1,043**
Net insurance claims and benefits	(392)	(721)	(275)	(572)
Acquisition expenses	(120)	(233)	(104)	(204)
Administrative expenses	(34)	(64)	(32)	(64)
Reinsurance commissions and profit participation	8	17	7	13
Other	(9)	(33)	(24)	(49)
Insurance result	**77**	**217**	**116**	**167**

(in millions of PLN)

Mass insurance (non-life insurance)	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Gross written premium – external	2,616	5,327	2,564	5,217
Gross written premium – cross-segment	5	23	1	1
Gross written premiums	**2,621**	**5,350**	**2,565**	**5,218**
Movement in provision for unearned premiums and gross provision for unexpired risks	(44)	(304)	(204)	(656)
Gross earned premium	**2,577**	**5,046**	**2,361**	**4,562**
Reinsurers' share in gross written premium	(23)	(26)	(23)	(24)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(15)	(36)	-	(22)
Net earned premium	**2,539**	**4,984**	**2,338**	**4,516**
Investment income, including:	149	283	134	228
external operations	149	283	134	228
intersegment operations	-	-	-	-
Other net technical income	25	60	18	88
Income	**2,713**	**5,327**	**2,490**	**4,832**
Net insurance claims and benefits	(1,603)	(3,135)	(1,498)	(2,790)
Acquisition expenses	(454)	(905)	(432)	(847)
Administrative expenses	(158)	(288)	(138)	(280)
Reinsurance commissions and profit participation	2	(1)	1	-
Other	(67)	(180)	(94)	(191)
Insurance result	**433**	**818**	**329**	**724**

Group and individually continued insurance (life insurance)	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Gross written premium – external	1,722	3,444	1,715	3,429
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,722**	**3,444**	**1,715**	**3,429**
Movement in the provision for unearned premiums	-	(1)	(3)	(3)
Gross earned premium	**1,722**	**3,443**	**1,712**	**3,426**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,722**	**3,443**	**1,712**	**3,426**
Investment income, including:	139	261	163	393
external operations	139	261	163	393
intersegment operations	-	-	-	-
Other net technical income	1	1	1	1
Income	**1,862**	**3,705**	**1,876**	**3,820**
Net insurance claims and benefits and movement in other net technical provisions	(1,196)	(2,510)	(1,196)	(2,648)
Acquisition expenses	(88)	(172)	(85)	(167)
Administrative expenses	(154)	(297)	(143)	(292)
Other	(10)	(22)	(25)	(31)
Insurance result	**414**	**704**	**427**	**682**

(in millions of PLN)

Individual insurance (life insurance)	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Gross written premium – external	343	689	384	792
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**343**	**689**	**384**	**792**
Movement in the provision for unearned premiums	-	2	(1)	1
Gross earned premium	**343**	**691**	**383**	**793**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**343**	**691**	**383**	**793**
Investment income, including:	68	83	71	251
external operations	68	83	71	251
intersegment operations	-	-	-	-
Income	**411**	**774**	**454**	**1,044**
Net insurance claims and benefits and movement in other net technical provisions	(311)	(571)	(358)	(850)
Acquisition expenses	(32)	(65)	(33)	(67)
Administrative expenses	(19)	(37)	(15)	(30)
Other	(2)	(3)	(2)	(2)
Insurance result	**47**	**98**	**46**	**95**

Investments	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Investment income, including:	1,145	1,089	1,352	1,684
- external operations	(239)	(317)	(200)	126
- intersegment operations	1,384	1,406	1,552	1,558
Operating result	**1,145**	**1,089**	**1,352**	**1,684**

Banking activity	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Revenue from commissions and fees	772	1,532	386	585
Investment income, including:	2,418	4,693	1,172	1,852
- external operations	2,418	4,693	1,172	1,852
- intersegment operations	-	-	-	-
Income	**3,190**	**6,225**	**1,558**	**2,437**
Fee and commission expenses	(181)	(351)	(105)	(179)
Interest expenses	(462)	(927)	(230)	(386)
Administrative expenses	(1,300)	(2,540)	(765)	(1,236)
Other [1)]	(268)	(634)	(124)	(184)
Operating result	**979**	**1,773**	**334**	**452**

(in millions of PLN)

Pension insurance	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Investment income, including:	1	3	2	3
external operations	1	3	2	3
intersegment operations	-	-	-	-
Other income	41	77	33	61
Income	**42**	**80**	**35**	**64**
Administrative expenses	(9)	(17)	(11)	(24)
Other	(1)	(3)	-	(1)
Operating result	**32**	**60**	**24**	**39**

Insurance - Baltic States	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Gross written premium – external	412	787	358	673
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**412**	**787**	**358**	**673**
Movement in provision for unearned premiums and gross provision for unexpired risks	(30)	(54)	(51)	(72)
Gross earned premium	**382**	**733**	**307**	**601**
Reinsurers' share in gross written premium	(9)	(29)	(6)	(22)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(3)	6	(2)	5
Net earned premium	**370**	**710**	**299**	**584**
Investment income, including:	2	5	1	9
external operations	2	5	1	9
intersegment operations	-	-	-	-
Income	**372**	**715**	**300**	**593**
Net insurance claims and benefits paid	(223)	(434)	(181)	(366)
Acquisition expenses	(78)	(153)	(66)	(130)
Administrative expenses	(31)	(60)	(28)	(55)
Other	1	2	-	-
Insurance result	**41**	**70**	**25**	**42**

(in millions of PLN)

Insurance - Ukraine	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Gross written premium – external	62	114	63	115
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**62**	**114**	**63**	**115**
Movement in provision for unearned premiums and gross provision for unexpired risks	(3)	(4)	(11)	(14)
Gross earned premium	**59**	**110**	**52**	**101**
Reinsurers' share in gross written premium	(24)	(42)	(30)	(51)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	2	1	9	9
Net earned premium	**37**	**69**	**31**	**59**
Investment income, including:	4	6	3	7
external operations	4	6	3	7
intersegment operations	-	-	-	-
Income	**41**	**75**	**34**	**66**
Net insurance claims and benefits paid	(12)	(25)	(16)	(26)
Acquisition expenses	(21)	(40)	(16)	(32)
Administrative expenses	(6)	(11)	(6)	(12)
Other	4	10	5	11
Insurance result	**6**	**9**	**1**	**7**

Investment contracts	**1 April – 30 June 2018**	**1 January – 30 June 2018**	**1 April – 30 June 2017**	**1 January – 30 June 2017**
Gross written premium	8	20	8	21
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**8**	**20**	**8**	**21**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	**8**	**20**	**8**	**21**
Investment income, including:	-	(7)	2	21
external operations	-	(7)	2	21
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**8**	**13**	**10**	**42**
Net insurance claims and benefits and movement in other net technical provisions	(5)	(7)	(9)	(38)
Acquisition expenses	-	-	(1)	(1)
Administrative expenses	(1)	(3)	(1)	(3)
Operating result	**2**	**3**	**(1)**	**-**

(in millions of PLN)

Other segments	1 April – 30 June 2018	1 January – 30 June 2018	1 April – 30 June 2017	1 January – 30 June 2017
Investment income, including:	12	12	4	4
- external operations	12	12	4	4
- intersegment operations	-	-	-	-
Other income	247	492	241	454
Income	**259**	**504**	**245**	**458**
Expenses	(277)	(539)	(248)	(484)
Other	7	13	6	23
Operating result	**(11)**	**(22)**	**3**	**(3)**

Reconciliations 1 January 2018 - 30 June 2018	Net earned premium	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,159	63	(721)	(233)	(64)	217
Mass insurance	4,984	283	(3,135)	(905)	(288)	818
Group and individually continued insurance	3,443	261	(2,510)	(172)	(297)	704
Individual insurance	691	83	(571)	(65)	(37)	98
Investments	-	1,089	-	-	-	1,089
Banking activity	-	4,693	-	-	(2,540)	1,773
Pension insurance	-	3	-	(3)	(17)	60
Insurance - Baltic States	710	5	(434)	(153)	(60)	70
Insurance - Ukraine	69	6	(25)	(40)	(11)	9
Investment contracts	20	(7)	(7)	-	(3)	3
Other segments	-	12	-	-	-	(22)
Total segments	**11,076**	**6,491**	**(7,403)**	**(1,571)**	**(3,317)**	**4,819**
Presentation of investment contracts	(20)	10	7	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	(225)	-	-	-	(225)
Measurement of properties	-	(4)	-	-	-	(7)
Elimination of the equalization provision and prevention fund	-	-		-	-	(7)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1)]	(2)	(1,016)	55	52	(15)	(1,420)
Consolidated data	**11,054**	**5,256**	**(7,345)**	**(1,519)**	**(3,342)**	**3,146**

(in millions of PLN)

Reconciliations 1 January 2017 - 30 June 2017 (restated)	**Net earned premium**	**Investment income** [2]	**Net insurance claims and benefits**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	967	40	(572)	(204)	(64)	167
Mass insurance	4,516	228	(2,790)	(847)	(280)	724
Group and individually continued insurance	3,426	393	(2,648)	(167)	(292)	682
Individual insurance	793	251	(850)	(67)	(30)	95
Investments	-	1,684	-	-	-	1,684
Banking activity	-	1,852	-	-	(1,236)	452
Pension insurance	-	3	-	(1)	(24)	39
Insurance - Baltic States	584	9	(366)	(130)	(55)	42
Insurance - Ukraine	59	7	(26)	(32)	(12)	7
Investment contracts	21	21	(38)	(1)	(3)	-
Other segments	-	4	-	-	-	(3)
Total segments	**10,366**	**4,492**	**(7,290)**	**(1,449)**	**(1,996)**	**3,889**
Presentation of investment contracts	(21)	(19)	38	-	-	-
Estimated salvage and subrogation	-	-	6	-	-	6
Valuation of equity instruments	-	36	-	-	-	36
Elimination of the equalization provision and prevention fund	-	-		-	-	(2)
Allowances to the Company Social Benefits Fund and actuarial costs	-	-	-	-	(20)	(20)
Consolidation adjustments [1]	2	(1,482)	32	37	(20)	(1,752)
Consolidated data	**10,347**	**3,027**	**(7,214)**	**(1,412)**	**(2,036)**	**2,157**

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

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

Geographic breakdown 1 January - 30 June 2018 and on 30 June 2018	**Poland**	**Baltic States**	**Ukraine**	**Not allocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premium – external	10,980	787	114	-	11,881
Gross written premium – cross-segment	20	-	-	(20)	-
Revenue from commissions and fees	1,673	-	-	-	1,673
Investment income [1]	5,245	5	6	-	5,256
Non-current assets, other than financial assets [2]	6,127	245	4	-	6,376
Deferred tax assets	2,047	-	2	-	2,049
Assets	320,406	2,416	336	(1,347)	321,811

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

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

Geographic breakdown 31 December 2017 (restated)	**Poland**	**Baltic States**	**Ukraine**	**Not allocated (consolidation eliminations and other)**	**Consolidated value**
Non-current assets, other than financial assets [1]	6,486	240	4	-	6,730
Deferred tax assets	1,588	-	2	-	1,590
Assets	316,388	2,190	267	(1,387)	317,458

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

(in millions of PLN)

Geographic breakdown 1 January - 30 June 2017 and on 30 June 2017 (restated)	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	10,818	673	115	-	11,606
Gross written premium – cross-segment	-	-	-	-	-
Revenue from commissions and fees	699	-	-	-	699
Investment income [1]	3,011	9	7	-	3,027

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

10.7 Information on key customers

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

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

In the 6-month period ended 30 June 2018, neither PZU nor its subsidiaries materially issued, redeemed or repaid any debt securities or equity securities.

12. Default or breach of material provisions of loan agreements

During the 6-month period ended 30 June 2018, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 6-month period ended 30 June 2018, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

14. Dividends

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

On 28 June 2018, PZU's Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2017 totaling PLN 2,434 million by earmarking:

- PLN 2,159 million as a dividend payout to shareholders, i.e. PLN 2.50 per share;
- PLN 19 million to cover retained losses resulting from the final purchase price allocation of the acquisition of the organized part of Bank BPH by Alior Bank SA;
- PLN 249 million as supplementary capital;
- PLN 7 million to the Company Social Benefit Fund.

The record date was set at 12 September 2018 and the dividend payout date was set for 3 October 2018.

15. Disputes

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

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

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

During the 6-month period ended 30 June 2018 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described below.

As at 30 June 2018, the total value of the subject matter of the litigation in all 226,053 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 6,866 million. PLN 3,794 million of that amount pertains to liabilities and PLN 3,072 million to the accounts receivable of PZU Group companies.

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

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 June 2018, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

15.1.1. Other demands for payment pertaining to 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 deprivation of the right to participate in PZU's profit.

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

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

On 30 December 2011, the President of the Office of Competition and Consumer Protection ("UOKiK") issued a decision to impose a fine of PLN 57 million on PZU for its use of a practice restricting competition and violating the prohibition prescribed in Article 6 Section 1 Item 3 of the Act on Competition and Consumer Protection by the execution, by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker"), of an agreement restricting competition in the domestic market for sales of group 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 undertakings 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 filed a reply to the appeal of the UOKiK President.

PZU had a provision for this penalty, which amounted to PLN 57 million as at 30 June 2018 and 31 December 2017 alike.

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

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

The PZU Życie Management Board did not concur with the findings and with the legal arguments set out in the decision. It filed an appeal with SOKiK, raising 38 formal and substantial objections against the decision made by the UOKiK President. The Management Board of PZU Życie is of the opinion that, in its decision, UOKiK failed to consider all the evidence, made an incorrect legal qualification, and, as a consequence, groundlessly assumed that PZU Życie has a dominating position on the market.

After many years of proceedings, on 30 September 2015, PZU Życie paid the imposed fine of PLN 50 million and the awarded costs of proceedings. On 18 March 2016, PZU Życie filed a cassation appeal with the Supreme Court. During the hearing 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.

15.4 Notification of PZU's claim to the bankruptcy estate of companies of the PBG Group

PZU is a creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both companies with registered offices in Wysogotowo near Poznań, on account of insurance guarantees (contractual guarantees) issued and paid out.

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of PBG's shares as at 30 June 2018 was PLN 2 million (PLN 4 million as at 31 December 2017). Bonds – on 30 June 2018 and 31 December 2017, they were recognized in off-balance sheet records only and the carrying amount of the bonds was zero.

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

16. Other information

16.1 Related party transactions

16.1.1. Related party transactions concluded by PZU or subsidiaries on terms other than based on the arm's length principle

In the 6-month period ended 30 June 2018, neither PZU nor its subsidiaries executed any single or multiple transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on an arm's length principle.

(in millions of PLN)

16.1.2. Other related party transactions

Account balances and activities resulting from commercial transactions between the PZU Group and related parties	1 January - 30 June 2018 and on 30 June 2018		1 January – 31 December 2017 and as at 31 December 2017		1 January - 30 June 2017 and on 30 June 2017	
	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]
Gross written premium	-	3	-	4	-	2
in non-life insurance	-	3	-	4	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	100 [3]	-	17
Expenses	-	-	-	2	-	-
Receivables		-		-	-	2
Liabilities	-	-	-	-	-	16
Contingent assets	-	-	-	-	-	315
Contingent liabilities	-	-	-	-	-	-

[1] Members of the PZU Management Board and PZU Group Directors, data based on declarations.
[2] Unconsolidated companies in liquidation and associates measured by the equity method.
[3] Revenues from Pekao TFI, PIM, Xelion for the period when they were associates.

16.2 KNF Office inspections in PZU and PZU Życie

In the period from 7 August to 6 October 2017, the Polish Financial Supervision Authority (KNF) carried out another audit of PZU's operations and assets in the claims handling area. On 13 December 2017 PZU submitted its clarifications to the KNF inspection report of 30 November 2017. KNF did not consider PZU's clarifications. On 13 March 2018, KNF released a recommendation to pay claims in the settlement process in consideration of mutual concessions. The time limit for implementing the recommendation was set at 31 May 2018. The PZU Management Board believes that the results of the audit will not affect the consolidated financial statements.

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

On 19 June 2018 a KNF inspection began in PZU pertaining to claims handling and entering into insurance contracts. This inspection formally ended on 17 August 2018. Up to the date of signing the condensed interim financial statements PZU has not received the inspection report.

Signatures of the PZU Management Board Members:

Name	**Position**	
Paweł Surówka	President of the PZU Management Board	.... (signature)
Tomasz Kulik	Member of the PZU Management Board	.... (signature)
Roger Hodgkiss	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 29 August 2018