Group of
Powszechny Zakład Ubezpieczeń
Spółka Akcyjna

Consolidated Financial Statements
for the year ended 31 December 2017
prepared in accordance with the
International Financial Reporting Standards

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(in millions of PLN)

Consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 December 2017	1 January – 31 December 2016 (restated) [1)]
Gross written premiums	10	22,847	20,219
Reinsurers' share in gross written premium		(612)	(431)
Net written premiums		**22,235**	**19,788**
Movement in net provision for unearned premiums		(881)	(1,163)
Net earned premium		**21,354**	**18,625**
Revenue from commissions and fees	11	2,341	817
Net investment income	12	9,051	4,111
Net result on realization and impairment losses on investments	13	(960)	(935)
Net movement in fair value of assets and liabilities measured at fair value	14	411	335
Other operating income	15	1,178	1,336
Claims, benefits and movement in technical provisions		(15,376)	(12,888)
Reinsurers' share in claims, benefits and movement in technical provisions		435	156
Net insurance claims and benefits	**16**	**(14,941)**	**(12,732)**
Fee and commission expense	17	(557)	(273)
Interest expense	18	(1,365)	(697)
Acquisition expenses	19	(2,901)	(2,613)
Administrative expenses	20	(5,364)	(2,923)
Other operating expenses	22	(2,737)	(2,060)
Operating profit		**5,510**	**2,991**
Share of the net financial results of entities measured by the equity method		16	(3)
Profit before tax		**5,526**	**2,988**
Income tax	23	(1,293)	(614)
Net profit, including:		**4,233**	**2,374**
- profit attributable to the equity holders of the Parent Company		2,910	1,935
- profit (loss) attributed to holders of non-controlling interest		1,323	439
Weighted average basic and diluted number of common shares	24	863,519,608	863,510,930
Basic and diluted profit (loss) per common share (in PLN)	24	3.37	2.24

[1)] Information on restatement of the 2016 data is presented in section 5.3.

(in millions of PLN)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2017	1 January – 31 December 2016 (restated) [1]
Net profit		4,233	2,374
Other comprehensive income	25	66	(125)
Subject to subsequent transfer to profit or loss		57	(135)
Measurement of financial instruments available for sale		117	(144)
Foreign exchange translation differences		(71)	40
Cash flow hedging		11	(31)
Not to be reclassified to profit or loss in the future		9	10
Reclassification of real property from property, plant and equipment to investment property		2	3
Actuarial gains and losses related to provisions for employee benefits		7	7
Total net comprehensive income		**4,299**	**2,249**
- comprehensive income attributable to equity holders of the Parent Company		2,897	1,872
- comprehensive income attributed to holders of non-controlling interest		1,402	377

[1] Information on restatement of the 2016 data is presented in section 5.3.

Warsaw, 14 March 2018

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated statement of financial position

Assets	Note	31 December 2017	31 December 2016 (restated) 1)	1 January 2016 (restated) 1)
Goodwill	26	3,839	1,583	1,532
Intangible assets	27	3,443	1,463	1,393
Other assets	28	692	866	801
Deferred acquisition costs	29	1,485	1,407	1,154
Reinsurers' share in technical provisions	33.7, 38	1,250	990	1,097
Property, plant and equipment	30	3,239	1,467	1,300
Investment property	31	2,354	1,738	1,172
Entities measured by the equity method	32	20	37	54
Financial assets		281,854	105,286	89,229
Held to maturity	33.2, 33.7	21,237	17,346	17,370
Available for sale	33.3, 33.7	48,519	11,652	7,745
Measured at fair value through profit or loss	33.4	22,247	21,882	20,648
Hedge derivatives	33.5	347	72	140
Loans	33.6, 33.7	189,504	54,334	43,326
Deferred tax assets	41	1,577	633	369
Receivables	33.7, 34	9,096	5,664	3,350
Cash and cash equivalents	35	8,239	2,973	2,440
Assets held for sale	36	317	1,189	1,506
Total assets		**317,405**	**125,296**	**105,397**

Equity and liabilities	Note	31 December 2017	31 December 2016 (restated) 1)	1 January 2016 (restated) 1)
Equity				
Equity attributable to equity holders of the Parent		14,622	12,998	12,924
Share capital	37.1	86	86	86
Other capital	37.2	11,917	10,869	10,142
Retained earnings		2,619	2,043	2,696
Retained earnings		(291)	108	2,696
Net profit		2,910	1,935	-
Non-controlling interest		22,979	4,086	2,194
Total equity		**37,601**	**17,084**	**15,118**
Liabilities				
Technical provisions	38	44,558	42,194	41,280
Provisions for employee benefits	39	556	128	117
Other provisions	40	497	367	108
Deferred tax liability	41	638	469	509
Financial liabilities	42	224,507	60,030	44,695
Other liabilities	43	9,045	4,991	3,570
Liabilities related directly to assets classified as held for sale	36	3	33	-
Total liabilities		**279,804**	**108,212**	**90,279**
Total equity and liabilities		**317,405**	**125,296**	**105,397**

1) Information on restatement of data as at 31 December 2016 is presented in section 5.3.

Warsaw, 14 March 2018

(in millions of PLN)

Consolidated statement of changes in equity

Consolidated statement of changes in equity	Note	Share capital	Equity attributable to equity holders of the parent									Non-controlling interest	Total equity
			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			
Note		37.1		37.2	37.2		37.2	37.2				2.3	
As at 1 January 2017		**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Measurement of financial instruments available for sale		-	-	-	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 real 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)		-	-	-	-	-	-	-	-	2,910	2,910	1,323	4,233
Total comprehensive income		**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**2,910**	**2,897**	**1,402**	**4,299**
Other changes, including:		**-**	**1**	**1,066**	**(6)**	**-**	**-**	**-**	**(2,334)**	**-**	**(1,273)**	**17,491**	**16,218**
Distribution of financial result	37.1.1.1	-	-	1,125	-	-	-	-	(2,334)	-	(1,209)	-	(1,209)
Acquisition of shares in Pekao	2.4.1	-	-	-	-	-	-	-	-	-	-	17,677	17,677
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)**	**(291)**	**2,910**	**14,622**	**22,979**	**37,601**

Warsaw, 14 March 2018

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	**Share capital**	**Equity attributable to equity holders of the parent**									**Non-controlling interest**	**Total equity**
		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			
Note	37.1		37.2	37.2		37.2	37.2				2.3	
As at 1 January 2016	**86**	**-**	**9,947**	**241**	**-**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of financial instruments available for sale	-	-	-	(104)	-	-	-	-	-	(104)	(40)	(144)
Cash flow hedging	-	-	-	(9)	-	-	-	-	-	(9)	(22)	(31)
Foreign exchange translation differences	-	-	-	-	-	-	40	-	-	40	-	40
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	7	-	-	-	7	-	7
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**-**	**(63)**	**(62)**	**(125)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,935	1,935	439	2,374
Total comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**1,935**	**1,872**	**377**	**2,249**
Other changes, including:	**-**	**(1)**	**811**	**(25)**	**5**	**-**	**-**	**(2,588)**	**-**	**(1,798)**	**1,515**	**(283)**
Distribution of financial result	-	-	787	-	5	-	-	(2,588)	-	(1,796)	-	(1,796)
Issues of Alior Bank shares	-	-	-	-	-	-	-	-	-	-	1,528	1,528
Transactions on treasury shares		(1)	-	-	-	-	-	-	-	(1)	-	(1)
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	(13)	(14)
Sale of revalued real estate	-	-	25	(25)	-	-	-	-	-	-	-	-
As at 31 December 2016	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**108**	**1,935**	**12,998**	**4,086**	**17,084**

[1] Information on restatement of the 2016 data is presented in section 5.3.

Warsaw, 14 March 2018

The accompanying notes form an integral part of the consolidated financial statements.

(in millions of PLN)

Consolidated cash flow statement

Consolidated cash flow statement	Note	1 January – 31 December 2017	1 January – 31 December 2016 (restated) 1)
Profit before tax		5,526	2,988
Adjustments		9,896	1,249
Movement in loan receivables from clients		(13,222)	(5,159)
Movement in liabilities under deposits		19,478	3,964
Movement in the valuation of assets measured at fair value		(411)	(357)
Interest income and expenses		(1,749)	(1,126)
Realized gains/losses from investing activities and impairment losses		960	935
Net foreign exchange differences		(589)	(98)
Movement in deferred acquisition costs		(78)	(253)
Amortization of intangible assets and depreciation of property, plant and equipment		884	412
Movement in the reinsurers' share of technical provisions		(260)	107
Movement in technical provisions		2,364	914
Movement in receivables		(554)	(2,299)
Change in liabilities		1,977	1,961
Cash flow on investment contracts		(89)	(152)
Acquisitions and redemptions of participation units and investment certificates of mutual funds		(228)	303
Income tax paid		(1,229)	(580)
Gain from a bargain purchase of Bank BPH's Core Business		-	(465)
Other adjustments		2,642	3,142
Net cash flows from operating activities		**15,422**	**4,237**
Cash flow from investing activities			
Proceeds		904,328	1,030,990
- sale of investment property		59	69
- proceeds from investment property		301	279
- sale of intangible assets and property, plant and equipment		13	14
- sale of ownership interests and shares		3,115	4,470
- realization of debt securities		200,893	183,612
- closing of buy-sell-back transactions		369,251	351,307
- closing of term deposits with credit institutions		235,593	367,893
- realization of other investments		88,276	120,655
- interest received		1,757	1,525
- dividends received		37	61
- increase in cash due to purchase of entities and change in the scope of consolidation		5,000	1,076
- other investment proceeds		33	29

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	Note	1 January – 31 December 2017	1 January – 31 December 2016 (restated) [1]
Expenditures		(916,362)	(1,032,857)
- purchase of investment property		(56)	(202)
- expenditures for the maintenance of investment property		(179)	(174)
- purchase of intangible assets and property, plant and equipment		(578)	(700)
- purchase of ownership interests and shares		(1,817)	(4,336)
- purchase of ownership interests and shares in subsidiaries		(6,867)	(1,852)
- decrease in cash due to the sale of entities and change in the scope of consolidation	2.4.8	(54)	(7)
- purchase of debt securities		(214,622)	(188,304)
- opening of buy-sell-back transactions		(366,738)	(351,016)
- purchase of term deposits with credit institutions		(234,071)	(364,550)
- purchase of other investments		(91,372)	(121,715)
- other expenditures for investments		(8)	(1)
Net cash flows from investing activities		**(12,034)**	**(1,867)**
Cash flows from financing activities			
Proceeds		228,417	333,943
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)		-	1,516
- proceeds from loans and borrowings		1,605	2,883
- proceeds on the issue of own debt securities		5,829	277
- opening of repurchase transactions		220,983	329,267
Expenditures		(226,462)	(335,833)
- dividends to equity holders of the parent	37.1.1.1	(1,209)	(1,796)
- dividends to owners of non-controlling interests		(1,823)	-
- repayment of loans and borrowings		(1,530)	(38)
- redemption of own debt securities		(150)	-
- closing of repurchase transactions		(221,637)	(332,902)
- interest on loans and borrowings		(6)	(994)
- interest on outstanding debt securities		(107)	(103)
Net cash flows from financing activities		**1,955**	**(1,890)**
Total net cash flows		**5,343**	**480**
Cash and cash equivalents at the beginning of the period		2,973	2,440
Change in cash due to foreign exchange differences		(77)	53
Cash and cash equivalents at the end of the period, including:	35	8,239	2,973
- restricted cash		41	35

[1] Information on restatement of the 2016 data is presented in section 5.3.

Supplementary information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("consolidated financial statements" and "PZU Group", respectively) have been prepared in line with the International Financial Reporting Standards as endorsed by the European Commission ("IFRS"), published and in force as at 31 December 2017.

Period covered by the statements

These consolidated financial statements cover the period of 12 months from 1 January to 31 December 2017.

Approval of the statements

These consolidated financial statements were signed and authorized for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", "parent company") on 14 March 2018 and will be subject to approval by the shareholder meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

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 Ukraine is the Ukrainian hryvnia, the euro is the functional currency of the companies domiciled in Lithuania, Latvia and Sweden and pound sterling – of the company domiciled in the United Kingdom.

Going concern assumption

These 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 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 2017, the PZU Group companies did not discontinue any material type of activity.

Glossary

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

Company names

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Bank BPH – Bank BPH 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, Money Makers TFI SA, New Commerce Services sp. z o.o., Absource sp. z o.o., Serwis Ubezpieczeniowy sp. z o.o.

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

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, 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.

PFR – Polski Fundusz Rozwoju SA.

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

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

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

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company, parent – 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.

TFI PZU SA – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

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

Other definitions

BFG – Bank Guarantee Fund

CGU – cash generating unit.

Forbearance – tools used to restructure debt, most frequently taking the form of arrangements provided to the debtor by the creditor.

Pekao Pension Funds – Otwarty Fundusz Emerytalny Pekao and Pekao Dobrowolny Fundusz Emerytalny.

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

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

PZU standalone financial statements for 2017 – 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.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code (i.e. Journal of Laws of 2017, Item 1577).

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 December 2016;

NBP – National Bank of Poland;

PGK – Tax Group established pursuant to the agreement signed on 25 September 2014 by 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., Ipsilon sp. z o.o., Ardea Alba SA in liquidation (formerly PZU Asset Management SA), TFI PZU SA, PZU Zdrowie SA, PZU Finanse sp. z o.o., PZU LAB SA (formerly Omicron SA), Omicron Bis SA. The Tax Group was established for a period of 3 years – from 1 January 2015 to 31 December 2017. PZU is the parent company representing the Tax Group.

Banking Law – Banking Law Act of 29 August 1997 (i.e. Journal of Laws of 2017, Item 1876, as amended) and regulations issued on its basis.

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2018 Item 395) and regulations issued thereunder.

PLET – Polish Life Expectancy Tables published annually by the Central Statistical Office of Poland.

RBNP – Reported But Not Paid, or 1st provision – provision for losses reported but not handled and handled but not paid.

IASB – International Accounting Standards Board.

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

Consolidated financial statements – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2017.

Legacy portfolio – portfolio of individual (endowment and life) insurance products and annuities taken over from Państwowy Zakład Ubezpieczeń.

KNF Office – Office of the Polish Financial Supervision Authority.

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

Pension Funds Act – Act of 28 August 1997 on Organization and Operation of Pension Funds (i.e. Journal of Laws of 2017, Item 870, as amended).

Act on Offerings – Act of 29 July 2005 on Public Offering and the Conditions for Introducing Financial Instruments on an Organized Trading System and on Public Companies (i.e. Journal of Laws of 2016, Item 1639 as amended).

ZUS – Social Insurance Institution.

2. Composition of PZU Group

2.1 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 Business Division of the National Court Register, 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 (EKD 6603).

(in millions of PLN)

2.2 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
				31 December 2017	31 December 2016	
Consolidated companies						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.02%	n/a	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	n/a	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.02%	n/a	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	n/a	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	n/a	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	n/a	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA (formerly Pekao Pioneer Powszechne Towarzystwo Emerytalne SA)	Warsaw	07.06.2017	20.02%	n/a	Management of pension funds. https://www.pekaopte.pl/
17	Pekao TFI SA (formerly Pioneer Pekao TFI SA)	Warsaw	11.12.2017 07.06.2017 1)	20.02%	n/a	Creation, representing and management of mutual funds. http://www.pioneer.com.pl/
18	Centrum Kart SA	Warsaw	07.06.2017	20.02%	n/a	Auxiliary financial services. http://www.centrumkart.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2017	31 December 2016	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	20.02%	n/a	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Kraków	07.06.2017	20.02%	n/a	Call-center services. http://www.cbb.pl/
21	Pekao Property SA	Warsaw	07.06.2017	20.02%	n/a	Development activity.
22	FPB – Media sp. z o.o.	Warsaw	07.06.2017	20.02%	n/a	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	n/a	Business consulting
24	Pekao Investment Management SA (formerly Pioneer Pekao Investment Management SA)	Warsaw	07.06.2017 11.12.2017 1)	20.02%	n/a	Asset management. http://www.pioneer.com.pl/
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	07.06.2017 11.12.2017 2)	20.02%	n/a	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	18.12.2015	32.23%	29.45%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	18.12.2015	32.23%	29.45%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation	Kraków	18.12.2015	32.23%	29.45%	Trading in receivables.
29	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	32.23%	29.45%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	18.12.2015	32.23%	29.45%	IT services.
31	Money Makers TFI SA 3)	Warsaw	18.12.2015	19.39%	17.33%	Asset management services and management of Alior SFIO subfunds. http://www.moneymakers.pl
32	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	32.23%	29.45%	The company does not conduct any activity
33	Absource sp. z o.o.	Kraków	04.05.2016	32.23%	29.45%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	32.23%	n/a	Brokerage activity.
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA 4)	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/grupa-pzu/pzu-zdrowie-sa
36	Centrum Medyczne Medica sp. z o.o. 5)	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/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2017	31 December 2016	
Consolidated companies – PZU Zdrowie Group – continued						
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. [6)]	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%	n/a	Medical services. http://www.revimed.pl/
45	Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.	Trzebinia	30.06.2017	99.75%	n/a	Medical services. http://www.nzoz.trzebinia.com/
Consolidated companies – other companies						
46	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
47	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
48	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
49	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
50	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/grupa-pzu/pzu-finance-ab
51	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
52	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/grupa-pzu/tower-inwestycje
53	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/
54	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
55	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2017	31 December 2016	
Consolidated companies – other companies – continued						
56	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	n/a	Investment activity.
57	Ardea Alba SA in liquidation (formerly PZU Asset Management SA) [7)]	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
58	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/lab
59	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
60	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
61	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
62	L4C sp. z o.o. in liquidation [8)]	Warsaw	15.09.2014	100.00%	100.00%	No business conducted.
63	Battersby Investments SA	Warsaw	15.09.2017	100.00%	n/a	No business conducted.
64	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	n/a	No business conducted.
Consolidated companies – Armatura Group						
65	Armatura Kraków SA [9)]	Kraków	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
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.
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 [10)]	Warsaw	01.07.2008	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości 2 [10)]	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

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 December 2017	31 December 2016	
Consolidated companies – mutual funds – continued						
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
Associates						
85	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
86	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [11)]	28.31% [11)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
87	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [12)]	n/a	Consulting and business activity – no business conducted.

[1)] 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. More information on this transaction is presented in section 2.4.3.

[2)] 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. More information on this transaction is presented in section 2.4.4.

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

[4)] On 31 October 2017, Medicus w Opolu sp. z o.o. merged with PZU Zdrowie SA. Additionally, on 15 December 2017, the National Court Register registered an increase of PZU Zdrowie SA's share capital from PLN 650 thousand to PLN 10,650 thousand through an issue of 1 million D series common bearer shares with a par value of PLN 10 each. The transactions had no effect on the consolidated financial statements.

[5)] On 27 November 2017, Rezo-Medica sp. z o.o. merged with Centrum Medyczne Medica sp. z o.o. The transaction had no effect on the consolidated financial statements.

[6)] On 20 September 2017, Polmedic sp. z o.o. merged with Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o. The transactions had no effect on the consolidated financial statements.

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

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

[9)] On 30 June 2017, Armatura Kraków SA merged with Armatoora SA. The transaction had no effect on the consolidated financial statements.

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

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

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

(in millions of PLN)

As at 31 December 2017, in addition to 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 was not consolidated. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

2.3 Non-controlling interest

2.3.1. Accounting policy

Non-controlling interests constitute that part of capital in a subsidiary that is not directly or indirectly attributable to the parent company. Non-controlling interests are measured at the at the non-controlling interest's proportionate share in the fair value of the subsidiary's identifiable net assets

2.3.2. Quantitative data

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

Name of the entity	31 December 2017	31 December 2016
Pekao [1]	79.98%	n/a
Alior Bank [2]	67.77%	70.55%
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%
NZOZ Trzebinia	0.25%	n/a
AAS Balta	0.01%	0.01%

[1] As a result, PZU also holds non-controlling interests in Pekao's subsidiaries listed in the table in section 2.2.
[2] As a result, PZU also holds non-controlling interests in Alior Bank's subsidiaries listed in the table in section 2.2.

Carrying amount of non-controlling interests	31 December 2017	31 December 2016 (restated)
Pekao Group	18,605	n/a
Alior Bank Group	4,368	4,080 [1]
Other	6	6
Total	**22,979**	**4,086**

[1] Restatement of data as at 31 December 2016 resulted from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this matter is presented in item 2.4.5.

(in millions of PLN)

Presented below is condensed financial information for the Pekao Group and the Alior Bank Group included in the consolidated financial statements. The data also contain values resulting from the acquisition of Bank BPH's Core Business for the period when control was exercised (i.e. from 4 November 2016). Restatement of data as at 31 December 2016 resulted from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this matter is presented in item 2.4.5.

Assets	Pekao Group [1)] 31 December 2017	Alior Bank Group	
		31 December 2017	31 December 2016 (restated)
Goodwill	692	-	-
Intangible assets	2,032	662	666
Other assets	95	36	68
Property, plant and equipment	1,683	476	486
Investment property	22	-	-
Financial assets	172,823	65,271	57,078
Held to maturity	3,500	1,339	220
Available for sale	33,593	12,259	9,522
Measured at fair value through profit or loss	3,080	453	419
Hedge derivatives	259	88	72
Loans	132,391	51,132	46,845
Deferred tax assets	924	619	603
Receivables	2,017	785	776
Cash and cash equivalents	5,282	1,338	1,126
Assets held for sale	64	-	1
Total assets	**185,634**	**69,187**	**60,804**

Equity and liabilities	Pekao Group [1)] 31 December 2017	Alior Bank Group	
		31 December 2017	31 December 2016 (restated)
Equity			
Equity attributable to equity holders of the Parent	23,263	6,445	5,784
Share capital	262	1,293	1,293
Other capital	20,562	5,019	4,298
Retained earnings	2,439	133	193
Non-controlling interest	-	1	1
Total equity	**23,263**	**6,446**	**5,785**
Liabilities			
Provisions for employee benefits	425	43	43
Other provisions	305	77	276
Deferred tax liability	38	-	-
Financial liabilities	157,903	60,863	53,266
Other liabilities	3,700	1,758	1,434[)]
Total liabilities	**162,371**	**62,741**	**55,019**
Total equity and liabilities	**185,634**	**69,187**	**60,804**

[1)] Since control over Pekao was obtained on 7 June 2017, no data is presented for comparative periods (31 December 2016).

(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 31 December 2017	PZU Group	Exclusion of Pekao data [1)]	Exclusion of Alior Bank data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	22,847	-	-	-	22,847
Reinsurers' share in gross written premium	(612)	-	-	-	(612)
Net written premiums	**22,235**	**-**	**-**	**-**	**22,235**
Movement in net provision for unearned premiums	(881)	-	-	-	(881)
Net earned premium	**21,354**	**-**	**-**	**-**	**21,354**
Revenue from commissions and fees	2,341	(1,279)	(853)	15	224
Net investment income	9,051	(3,677)	(3,900)	13	1,487
Net result on realization and impairment losses on investments	(960)	209	901	-	150
Net movement in fair value of assets and liabilities measured at fair value	411	(5)	(67)	-	339
Other operating income	1,178	(185)	(169)	-	824
Claims, benefits and movement in technical provisions	(15,376)	-	-	-	(15,376)
Reinsurers' share in claims, benefits and movement in technical provisions	435	-	-	-	435
Net insurance claims and benefits	**(14,941)**	**-**	**-**	**-**	**(14,941)**
Fee and commission expense	(557)	196	343	-	(18)
Interest expense	(1,365)	607	650	(13)	(121)
Acquisition expenses	(2,901)	-	-	(15)	(2,916)
Administrative expenses	(5,364)	1,911	1,806	-	(1,647)
Other operating expenses	(2,737)	721	479	-	(1,537)
Operating profit (loss)	**5,510**	**(1,502)**	**(810)**	**-**	**3,198**
Share of the net financial results of entities measured by the equity method	16	(22)	-	-	(6)
Profit (loss) before tax	**5,526**	**(1,524)**	**(810)**	**-**	**3,192**
Income tax	(1,293)	368	235	-	(690)
Net profit (loss)	**4,233**	**(1,156)**	**(575)**	**-**	**2,502**

[1)] Data for the period from 1 June to 31 December 2017.

(in millions of PLN)

Since control over Pekao was obtained on 7 June 2017, no data are presented for the period from 1 January to 31 December 2016.

Consolidated profit and loss account for the period from 1 January to 31 December 2016	PZU Group	Exclusion of Alior Bank data	Elimination of consolidation adjustments	Group without Alior Bank
Gross written premiums	20,219	-	19	20,238
Reinsurers' share in gross written premium	(431)	-	-	(431)
Net written premiums	**19,788**	**-**	**19**	**19,807**
Movement in net provision for unearned premiums	(1,163)	-	-	(1,163)
Net earned premium	**18,625**	**-**	**19**	**18,644**
Revenue from commissions and fees	817	(599)	-	218
Net investment income	4,111	(2,804)	11	1,318
Net result on realization and impairment losses on investments	(935)	763	-	(172)
Net movement in fair value of assets and liabilities measured at fair value	335	(161)	-	174
Other operating income	1,336	(589)	-	747
Claims, benefits and movement in technical provisions	(12,888)	-	-	(12,888)
Reinsurers' share in claims, benefits and movement in technical provisions	156	-	-	156
Net insurance claims and benefits	**(12,732)**	**-**	**-**	**(12,732)**
Fee and commission expense	(273)	248	-	(25)
Interest expense	(697)	605	(11)	(103)
Acquisition expenses	(2,613)	-	-	(2,613)
Administrative expenses	(2,923)	1,279	-	(1,644)
Other operating expenses	(2,060)	554	(19)	(1,525)
Operating profit (loss)	**2,991**	**(704)**	**-**	**2,287**
Share in net profit (loss) of entities measured by the equity method	(3)	-	-	(3)
Profit (loss) before tax	**2,988**	**(704)**	**-**	**2,284**
Income tax	(614)	84	-	(530)
Net profit (loss)	**2,374**	**(620)**	**-**	**1,754**

Statement of comprehensive income	Pekao Group [1]	Alior Bank Group	
	1 June – 31 December 2017	1 January – 31 December 2017	1 January – 31 December 2016
Net profit	1,156	575	620
Other comprehensive income	24	86	(87)
Measurement of financial instruments available for sale	6	86	(56)
Net cash flow hedges	11	-	(31)
Actuarial gains and losses related to employee provisions	7	-	
Total net comprehensive income	**1,180**	**661**	**533**

[1] Data for the period of control by the PZU Group. Since control over Pekao was obtained on 7 June 2017, no data are presented for the period from 1 January to 31 December 2016.

(in millions of PLN)

Cash flow statement	Pekao Group [1]	Alior Bank Group	
	1 June – 31 December 2017	1 January – 31 December 2017	1 January – 31 December 2016
Net cash flows from operating activities	10,233	3,067	(2,226)
Net cash flows from investing activities	(9,729)	(3,651)	(643)
Net cash flows from financing activities	(184)	869	2,376
Total net cash flows	**320**	**285**	**(493)**

[1] Data for the period of control by the PZU Group. Since control over Pekao was obtained on 7 June 2017, no data are presented for the period from 1 January to 31 December 2016.

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

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

Detailed accounting rules applicable to the recognition of acquisition transactions are presented in section 5.6.

In 2017, the PZU Group acquired shares in Pekao and indirectly shares in PIM and Xelion and two entities providing medical services.

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

Goodwill recognized as a result of acquisition of additional PIM shares represents the control premium and arises from the fact that additional benefits may be obtained from the anticipated synergies and an increase in revenues.

Acquisition of medical service providers (Revimed sp. z o.o. and NZOZ Trzebinia in 2017) aims to supplement the health insurance and health care services offered by the PZU Group. Development of the medical service and health insurance offering is one of the main elements of the PZU Group's strategy. Provision of some of the services in the Group's own facilities will increase the competitiveness of the PZU Group on this market. The goodwill recognized in the consolidated financial statements is an effect of the planned expansion of this service segment and the volume of services generated by health insurance, while improving profitability of these services since a part of the margin is retained in the PZU Group.

2.4.1. Acquisition of shares in Pekao

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

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

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

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

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

As a result of this transaction PZU considers to have acquired control over Pekao on 7 June 2017. Analysis of the considerations taken into account to determine control is presented in section 5.4.1.

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

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

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

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

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

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

Acquisition of PIM, Pekao TFI, Pekao PTE and Xelion

The Parties also agreed that their intention was for PIM (and hence indirectly Pekao TFI), Pekao PTE and Xelion to be full members of the Pekao Group. At the moment of the acquisition of Pekao shares, PIM and Xelion were Pekao's (and indirectly also PZU's) associates in which Pekao held, respectively, 49% (PIM, which in turn held 100% of Pekao TFI) and 50% (Xelion). Pekao PTE was a subsidiary in which Pekao held a 65% stake.

Shareholder agreement between PZU and PFR

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

On 23 January 2017, PZU and PFR signed a shareholder agreement ("Shareholder Agreement"). The governing law for the SPA, the Consortium Agreement and the Shareholder Agreements is Polish law.

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

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

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

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

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

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

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

Provisional purchase price allocation of the acquisition of Pekao

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

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

- the goodwill shown in Pekao's financial statements was written off;
- the intangible assets not previously included in Pekao's financial statements were recognized;
- the assets and liabilities shown in Pekao's financial statements were remeasured to fair value: credit portfolio, portion of the real property portfolio (owner-occupied property, investment property and property held for sale), financial assets held to maturity (previously measured by Pekao at amortized cost) and available for sale (previously measured by Pekao at historical cost);

(in millions of PLN)

- no contingent liabilities that would require recognition were identified;
- no potential indemnification assets that would require recognition were identified.

As at the date of signing the consolidated financial statements, some of the processes have not been completed, including the measurement of loan receivables and properties held by Pekao. The provisional purchase price allocation of the acquisition, as presented below, includes the measurements based on the best knowledge as at the date of signing the consolidated financial statements. They may however be revised by the date of the final purchase price allocation.

The final purchase price allocation will be presented after all the fair value measurement process is completed for all the properties, i.e. no later than on 6 June 2018. The final purchase price allocation will be presented in the condensed interim consolidated financial statements of the PZU Group for the period ended 30 June 2018. The consolidated financial statements contain the provisional fair value of the acquired assets and liabilities.

The tables below present the reconciliation of the carrying amount of the acquired assets and liabilities to their fair value and the recognized amounts of intangible assets.

Assets	**Carrying amount**	**Adjustment to fair value**	**Fair value**	**Commentary**
Goodwill	56	(56)	-	Goodwill included in Pekao's balance sheet has been eliminated and recognized as part of goodwill from the acquisition of Pekao's shares.
Intangible assets	544	1,450	1,994	New assets identified: • trademark – PLN 340 m; • core deposit intangible (CDI) – PLN 1,000 m; • relations with PEX cash loan clients – PLN 110 m.
Other assets	192	-	192	
Property, plant and equipment	1,403	253	1,656	Real properties measured by Pekao at historical cost less accumulated depreciation and impairment losses were remeasured at fair value.
Investment property	25	-	25	
Entities measured by the equity method	154	400	554	Shares in associates (PIM and Xelion) measured by Pekao by the equity method were remeasured at fair value.
Financial assets	157,634	(1,199)	156,435	
Held to maturity	4,507	22	4,529	Assets measured by Pekao at amortized cost were remeasured at fair value.
Available for sale	22,168	151	22,319	Equity instruments presented by Pekao at historical cost were remeasured at fair value and approach to measurement of certain assets was unified with the models in place 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	Credit portfolio was remeasured at fair value.
Deferred tax assets	867	(67)	800	Deferred tax was calculated on adjustments made to fair value
Receivables	2,542	(16)	2,526	Receivables were remeasured at fair value.
Cash and cash equivalents	4,981	-	4,981	
Assets held for sale	48	(2)	46	Properties held for sale were remeasured at fair value.
Total assets	**168,446**	**763**	**169,209**	

(in millions of PLN)

Liabilities	Carrying amount	Adjustment to fair value	Fair value	Commentary
Provisions for employee benefits	381	40	421	Provision for holiday leaves was remeasured to fair value.
Other provisions	249	46	295	Provisions were remeasured to fair value.
Deferred tax liability	5	-	5	
Financial liabilities	141,297	43	141,340	Liabilities measured at amortized cost were remeasured 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	Fair value	Commentary
Net assets attributable to equity holders of the parent	21,509	568	22,077	Impact of remeasurements on net asset value attributable to equity holders of the parent
Non-controlling interest	15	-	15	
Total net assets	**21,524**	**568**	**22,092**	

In the purchase price allocation of the acquisition, the PZU Group reduced the price paid by PLN 456 million, which was the price for the right to receive a dividend payable from profits earned by Pekao before the date of obtaining control; as at the date of obtaining control that amount was presented as receivable and it was received on 6 July 2017.

Goodwill calculation	Value in PLN million
Consideration transferred	6,001
Cash transferred	6,457
Adjustment for the amount equal to the price for the right to receive dividend	(456)
Value of non-controlling interests (80.00% share in the fair value of Pekao's net assets)	17,662
Tentative fair value of Pekao's identifiable net assets	(22,077)
Goodwill	**1,586**

Goodwill will not reduce taxable income.

2.4.2. Acquisition of shares in Pekao PTE

On 17 October 2017, Pekao acquired 35% shares in Pekao PTE for the total price of PLN 8 m. As a result of the transaction, Pekao holds a 100% stake in Pekao PTE. The carrying amount of non-controlling interests in Pekao PTE as at the date of acquisition of the 35% stake was PLN 16 m. The difference between the purchase price and the value of non-controlling interests, i.e. PLN 7 million, was recognized in the supplementary capital.

2.4.3. Acquisition of shares in PIM

On 11 December 2017, Pekao acquired 14,746 shares in PIM, which represented 51% in PIM's share capital and 51% of all the votes at the PIM's Shareholder Meeting. As a result, Pekao is now the sole shareholder in PIM and indirectly holds a 100% stake in the share capital of Pekao TFI. Consequently, the PZU Group believes that it acquired control over those companies and consolidates them.

(in millions of PLN)

Final purchase price allocation of the PIM share purchase transaction

Fair value of acquired assets and liabilities as at the date of obtaining control	Value in PLN million
Intangible assets	176
of which relations with clients identified during the acquisition	175
Property, plant and equipment	2
Financial assets	323
Measured at fair value through profit or loss	5
Loans including loan receivables from clients	318
Deferred tax assets	1
Other assets	29
Total assets	**531**
Other provisions	7
Deferred tax liability	33
Other liabilities	25
Total liabilities	**65**
Fair value of net assets acquired	**466**

Goodwill calculation	Value in PLN million
Consideration transferred (cash)	591
Carrying amount of previously held shares	564
Revaluation of shares held	3
Fair value of identifiable net assets	(466)
Goodwill	**692**

Goodwill will not reduce taxable income.

2.4.4. Acquisition of shares in Xelion

On 11 December 2017, Pekao acquired 50% of shares in Xelion ensuring 50% of all the votes at the Xelion's Shareholder Meeting. As a result, Pekao is now the sole shareholder in Xelion. Consequently, the PZU Group believes that it acquired control over the company and consolidates it.

Final purchase price allocation of the Xelion share purchase transaction

Fair value of acquired assets and liabilities as at the date of obtaining control	Value in PLN million
Intangible assets	1
Financial assets	55
Held to maturity	19
Loans including loan receivables from clients	36
Other assets	12
Total assets	**68**
Other provisions	1
Other liabilities	37
Total liabilities	**38**
Fair value of net assets acquired	**30**

Calculation of bargain purchase gain	Value in PLN million
Consideration transferred (cash)	9
Carrying amount of previously held shares	11
Revaluation of shares held	(3)
Fair value of identifiable net assets	(30)
Bargain purchase gain	**13**

(in millions of PLN)

2.4.5. Final purchase price allocation of the acquisition of Bank BPH's Core Business

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

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

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

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

(in millions of PLN)

2.4.6. Acquisition of other shares

Revimed sp. z o.o.

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

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

NZOZ Trzebinia

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

As a result of transactions concluded between 28 November and 13 December 2017, Elvita increased its holdings in NZOZ Trzebinia to 99.75% of the share capital and votes at the shareholder meeting by purchasing 18 additional shares.

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

Battersby Investments SA, Tulare Investments sp. z o.o., PZU Corporate Member Limited

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

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

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

Purchase price allocation

Fair value of acquired assets at the time of taking control	Final purchase price allocation
Financial assets	1
Receivables	2
Other assets	1
Total assets	**4**
Liabilities	2
Share of net assets acquired at fair value	**2**
Fair value of the payment made – cash	10
Goodwill	**8**

Goodwill will not reduce taxable income.

2.4.7. Financial data of acquired companies

Financial data pertaining Pekao prepared in accordance with IFRS in relation to the period in which Pekao was controlled by the PZU Group included in the consolidated profit and loss account are presented in section 2.3.

Because of the lack of significance, the data of other companies acquired in 2017 (Revimed sp. z o.o, NZOZ Trzebinia, Battersby Investments SA, Tulare Investments sp. z o.o., PZU Corporate Member Limited) are not presented.

(in millions of PLN)

2.4.7.1. Consolidated profit and loss account including acquired entities

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

Consolidated profit and loss account	**1 January – 31 December 2017**
Gross written premiums	22,847
Reinsurers' share in gross written premium	(612)
Net written premiums	**22,235**
Movement in net provision for unearned premiums	(881)
Net earned premium	**21,354**
Revenue from commissions and fees	3,221
Net investment income	11,549
Net result on realization and impairment losses on investments	(1,170)
Net movement in fair value of assets and liabilities measured at fair value	471
Other operating income	1,315
Claims, benefits and movement in technical provisions	(15,376)
Reinsurers' share in claims, benefits and movement in technical provisions	435
Net insurance claims and benefits	**(14,941)**
Fee and commission expense	(684)
Interest expense	(1,798)
Acquisition expenses	(2,901)
Administrative expenses	(6,662)
Other operating expenses	(3,434)
Operating profit	**6,320**
Share of the net financial results of entities measured by the equity method	34
Profit before tax	**6,354**
Income tax	(1,554)
Net profit, including:	**4,800**
- profit attributable to the equity holders of the Parent Company	3,024
- profit (loss) attributed to holders of non-controlling interest	1,776

2.4.8. Changes in the consolidation of mutual funds

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

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

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

On 31 December 2017, control was reinstated over the PZU Akcji Spółek Dywidendowych fund and therefore it was included in the consolidation.

3. Shareholder structure

The table below presents PZU's shareholder structure, including shareholders holding at least 5% of the votes at the PZU Shareholder Meeting:

(in millions of PLN)

As at 31 December 2017

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Other shareholders	568,305,700	65.8125%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 11/2018 on the list of shareholders holding at least 5% of votes at the Extraordinary Shareholder Meeting of PZU commenced on 27 February and ended on 9 March 2018.

As at 31 December 2016

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	44,260,000 [1)]	5.1255%
3	Other shareholders	524,045,700	60.6870%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 17/2017 on the list of shareholders holding at least 5% of votes at the Extraordinary Shareholder Meeting of PZU commenced on 18 January and ended on 8 February 2017.

Information on the number of shares included in the calculation of profit per share is presented in section 24.

Transactions with material blocks of PZU shares

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

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

4.1 Composition of the parent company's Management Board

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

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

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

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

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

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

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

From 13 June 2017 to the date of signing the consolidated financial statements, 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.

4.2 Composition of the parent company's Supervisory Board

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

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

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

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

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

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

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

On 12 April 2017 the PZU ESM dismissed Paweł Kaczmarek from the PZU Supervisory Board. On the same day the ESM appointed Katarzyna Lewandowska and Robert Śnitko to the PZU Supervisory Board. On 13 April 2017, the Supervisory

Board entrusted the function of Chairperson of the PZU Supervisory Board to Katarzyna Lewandowska, and Deputy Chairperson of the PZU Supervisory Board to Aneta Fałek.

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 signing the consolidated financial statements, the PZU Supervisory Board consisted of the following persons:

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

4.3 PZU Group Directors

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

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

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

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

(in millions of PLN)

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

PZU Group Directors from 1 November 2017 to the date of signing the consolidated financial statements:

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

5. Key accounting policies, key estimates and judgments

The consolidated financial statements have been prepared on the historical cost basis, except from remeasurements of investment property and some financial instruments, which are measured at fair value.

The preparation of consolidated financial statements in compliance with IFRS requires the PZU Management Board to make professional judgments, estimates and assumptions that affect the adopted accounting policies and the presented values of assets, liabilities, revenues and costs.

Such estimates and associated assumptions are based on historical experience and other factors which are considered reasonable in existing circumstances and their results provide grounds for making a professional judgment regarding the carrying amount of assets and liabilities that does not result directly from other sources.

In making judgments, estimates or assumptions, the PZU Management Board may, in significant matters, rely on the opinions of independent experts.

The actual value may differ from the estimated one. All judgments, estimates and related assumptions are revised on an ongoing basis. Their changes are recognized as described in section 0.

The key accounting policies, estimates and judgments used for the preparation of the consolidated financial statements are described below and in the individual notes as specified in the table below.

Item of the profit and loss account	**Note No.**	**Item of the statement of financial position**	**Note No.**
Gross written premiums	10	Goodwill	26
Revenue from commissions and fees	11	Intangible assets	27
Net investment income	12	Deferred acquisition costs	28**Błąd! Nie można odnaleźć źródła odwołania.**
Net result on realization and impairment losses on investments	13 33.7	Property, plant and equipment	30
Claims paid and movement in technical provisions	16	Investment property	31
Interest expense	18	Entities measured by the equity method	32
Acquisition expenses	19	Financial assets	33
Administrative expenses	20	Cash	35
Income tax	23	Assets held for sale	36
		Equity attributable to equity holders of the Parent	37
		Non-controlling interest	2.3
		Technical provisions	38
		Provisions for employee benefits	39
		Other provisions	40
		Deferred tax	41
		Financial liabilities	42

(in millions of PLN)

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

The accounting policies are changed only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows.

Changes in accounting policies associated with the initial application of an IFRS are accounted for in accordance with the specific transitional provisions contained in that IFRS. If a change in accounting policies is made in connection with the initial application of an IFRS that does not include specific transitional provisions applying to that change, or a change is made voluntarily then the entity will apply the change retrospectively. A retrospective introduction of changes in accounting policies is made by adjusting, in the statement of financial position, of the opening balance of each affected component of equity for the earliest prior period presented and by disclosing other comparative data for each period as if the changed accounting policies had always been applied.

Any items of the financial statements presented based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The effect of a change in an accounting estimate is recognized prospectively, which means that the change is applied to transactions, other events and conditions from the date of the change in estimate (the change may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods).

An assumption is made that errors are corrected in the period in which they were committed (rather than discovered), hence any significant prior period errors are corrected retrospectively and the resulting differences are charged to equity.

5.2 Amendments to the applied IFRS

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

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

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Commentary
Amendment to IAS 12 – Recognition of deferred tax assets for unrealized losses	1 January 2017	1989/2017	The amendment clarifies, among others, that unrealized losses related to debt instruments measured at fair value for which the tax value is their initial cost may give rise to deductible temporary differences. The change did not affect the consolidated financial statements.
Amendment to IAS 7 – Disclosure Initiative	1 January 2017	1990/2017	The amendment results in the presentation of disclosures enabling an assessment of changes in the value of liabilities created as part of financial activity (resulting from either cash flows or changes of a non-cash flow nature). The PZU Group made the relevant disclosures in the consolidated financial statements
Amendments to IFRS 2014-2016	1 January 2017	182/2018	Amendment relating to IFRS 12 – disclosures pertaining to assets classified as held for sale or discontinued operations in accordance with IFRS 5; The change did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

5.2.2. Standards, interpretations and amended standards not yet effective

5.2.2.1. 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.

In October 2017, the IASB published amendments to IFRS 9 entitled *Prepayment features with negative compensation.* The amendment is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

The PZU Group will apply IFRS 9 as of 1 January 2018, in the version published in July 2014 and it will take advantage of the possibility of earlier application of the above amendments to IFRS 9.

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

Estimated impact of the application of the new standard

The PZU Group is still analyzing the practical aspects of applying the IFRS 9 requirements in the context of the consolidation of receivables from loans taken over in the Pekao and Alior Bank acquisitions, including the initial fair value measurement under IFRS 3 and, in particular, the allocation of impairment losses to stages as at the date of obtaining control over Pekao and Alior Bank. In addition, the final purchase price allocation of the Pekao acquisition will be important for the assessment of the cumulative effect of the application of IFRS 9 on the PZU Group's consolidated equity.

Accordingly, the calculation of cumulative effect of the application of IFRS 9 on the PZU Group's consolidated equity has not yet been completed.

Below we present an estimate, prepared as at 1 January 2018, of the effect that the application of IFRS 9 would have on the selected components of the PZU Group, i.e. mainly on the insurance companies and on the banks – the Pekao Group and the Alior Bank Group (their data were presented based on their consolidated financial statements). The effect of changes in impairment losses under IAS 39 on credit risk losses under IFRS 9, as shown below, will be partially offset by expected credit losses already recognized in the consolidated financial statements as a decrease in the value of loan receivables of the Pekao Group and the Alior Bank Group, in the part in which they constitute an element of fair value measurement recognized at the moment PZU obtained control over the banks.

	Change in allowances for expected credit losses	Change of classification and measurement	Tax effect	Total effect on equity	of which:		
					on revaluation reserve	on retained earnings	on non-controlling interest
PZU Group (w/o banks)	(83)	13	14	(56)	(146)	90	-
Alior Bank Group	(1,026)	5	195	(826)	4	(270)	(560)
Pekao Group	(1,094)	221	152	(721)	43	(187)	(577)

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 the 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 PZU Group has evaluated the business models in which financial assets are managed and management information is provided. This analysis included, 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 evaluated at fair value will be measured at fair value through profit or loss because they are not held for the purpose of obtaining only contractual cash flows, or for both the purpose of obtaining contractual cash flows and selling financial assets.

SPPI test

In order to evaluate whether contractual cash flows consist of solely payments of principal and interest (so called the SPPI test), a special test is performed. The principal amount is defined as the fair value of the 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 the current IAS 39 as loans and receivables (of which most credit receivables from clients) and financial assets held to maturity, except for the financial assets, for which it was resolved after an 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 separate part 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.

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 will be 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 at fair value through profit or loss,
- financial assets classified under IAS 39 as held for trading,
- derivatives,
- 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:

- derivatives,
- 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:

- deposit obtained by 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 are the expected credit losses that result from all possible default events over the expected life of a financial instrument.
- 12-month ECL is 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 the loss allowance at an amount equal to lifetime ECL, except for the following instruments, for which 12-month ECL is recognized instead:

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

Change of the approach to calculation of impairment losses will have significant consequences in the case of modelling of the credit risk parameters and final amount of the charges made. The loss identification period and IBNR charge will no longer be used. The charge will be calculated in three categories:

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

The impairment loss calculation method also impacts the method of recognizing interest income – for stages 1 and 2 interest income will be determined on the basis of gross exposures, and in stage 3 on the net basis. If credit risk increases significantly (stage 2) then the expected credit losses will be recognized earlier, which will contribute to higher impairment losses and consequently affect the financial result.

The PZU Group recognizes the cumulative changes in lifetime ECL since initial recognition as a loss allowance 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 loss allowances:

- 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 for the corporate and sovereign debt class) 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 assumed that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The PZU Group assumes that financial instruments have low credit risk at the reporting date even if it has an external investment-grade rating.

For financial instruments, the PZU Group assesses whether credit risk has increased significantly by comparing:

- lifetime PD at the reporting date, with
- lifetime PD 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 stage 1 (12-month ECL) to stage 3 (impairment)
- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

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, the Group will apply IFRS 7 *Financial Instruments: Disclosures* amended by IFRS 9, because the option to choose an accounting policy does not exempt the Group from the application of the new disclosure requirements.

Disclosures

The requirements of IFRS 9 will result in a significant change in the presentation disclosures pertaining to financial instruments. The PZU Group intends to take advantage of the exemption not to restate the comparative data from prior periods in respect to the changes resulting from classification and measurement (including impairment). The differences in the carrying amount of financial assets and liabilities arising from the application of IFRS 9 will be recognized in the "Retained earnings" item.

(in millions of PLN)

5.2.2.2. Other standards, interpretations and amended standards issued but not effective:

- Approved by the regulation of the European Commission

Standard/interpretation	Effective date for annual periods starting from	Regulation approving the standard or interpretation	Commentary
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	1905/2016	IFRS 15 specifies how and when to recognize revenues and requires the presentation of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of interpretations related to revenue recognition. The standard applies to almost all agreements with customers (the main exceptions concern lease agreements, financial instruments and insurance agreements). The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of goods or services to customers and in an amount that reflects the value of consideration (i.e. the payment) which the company expects to obtain a right to in exchange for the goods or services. The standard also provides guidelines for recognizing transactions that were not regulated in detail in previous standards (e.g. revenues from services or modification of agreements) and contains more comprehensive explanations on the recognition of agreements with multiple deliverables. The standard does not apply to insurance contracts, financing arrangements and secondary activity (e.g. sale of fixed assets). The PZU Group will apply 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, which will entail the need to disclose additional data for 2018 also in compliance with the prevailing principles. 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.
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.

(in millions of PLN)

Standard/interpretation	Effective date for annual periods starting from	Regulation approving the standard or interpretation	Commentary
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 Group is currently analyzing the impact of these changes on its consolidated financial statements.
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 companies may defer the implementation of IFRS 9 until the entry into force of IFRS 4 Phase II concerning insurance contracts, but by no later than 1 January 2021, however the PZU Group may not take advantage of this exemption due to the significant share of banking activity. The Commission of the European Union has also allowed financial conglomerates to defer application of IFRS 9 by insurance entities in the conglomerates, provided that no financial instruments are transferred between insurance and banking entities within the conglomerates. The report includes information on insurance companies 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 mentioned in the regulation.
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.

(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)	Commentary
Amendment to IAS 40 – Transfers of Investment Property	8 December 2016	1 January 2018	The amendment clarifies when the entity should transfer properties under construction to or from the investment property category in the event of change of the nature of the use of such property in situations other than specifically listed in IAS 40. The amendment will not affect the PZU Group's consolidated financial statements.
IFRIC interpretation 22 – Foreign Currency Transactions and Advance Consideration	8 December 2016	1 January 2018	The interpretation clarifies that the exchange rate should be applied in 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 will not affect the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	7 June 2017	1 January 2019	The interpretation is to be applied to the determination of taxable profit, tax loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation will not affect the PZU Group's consolidated financial statements.
Amendment to IFRS 9	12 October 2017	1 January 2019	According to the current version of IFRS 9, certain options, which force a lender to accept reduced compensation for granting financing (in the case of a negative compensation payment) do not pass the SPPI test; accordingly any instruments containing such options cannot be classified as measured at amortized cost or at fair value through other comprehensive income. According to the amendment, the positive or negative sign of the prepayment amount will not be important; this means that, depending on the interest rate in effect when the agreement is terminated, payment can be made to a party resulting in prepayment. This compensation must be calculated in the same manner for both a penalty for prepayment and also for a gain earned on prepayment. The PZU Group is currently analyzing the impact of this amendment on the 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. This amendment will not have any material effect on the PZU Group's consolidated financial statements.

(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)	Commentary
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.
Amendments to IFRS 10, IFRS 12 and IFRS 28 – Sale or transfer of assets between the investor and an associate or a joint venture	11 September 2014	Deferred until an unspecified date	The main consequence of the amendment is the recognition of total profit or loss in a situation where the transaction concerns an organized business (regardless of whether it is located in a subsidiary or not), while partial gains or losses are recognized when the transaction relates to separate assets that do not form an organized business, even if they are located in the subsidiary. The amendments did not affect the PZU Group's consolidated financial statements.
Annual improvements to IFRS 2015-2017	12 December 2017	1 January 2019	The amendments pertain to: 1st IFRS 3 - the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2nd IFRS 11 - the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3rd IAS 12 - the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4th IAS 23 - the amendments clarify that if any specific 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 effect on the PZU Group's consolidated financial statements.
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.

In summary, in the opinion of the PZU Group, the introduction of the above standards and interpretations (except for IFRS 9) will have no material effect on the accounting principles applied by the PZU Group.

5.3 Explanation of differences between the 2016 annual consolidated financial statements and these consolidated financial statements

5.3.1. Purchase price allocation of the acquisition of Bank BPH's Core Business

Due to the completion of the final purchase price allocation of the acquisition of Bank BPH's Core Business, a retroactive restatement of data as at 31 December 2016 has been performed. More information on this purchase price allocation is presented in item 2.4.5.

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

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

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

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

5.3.4. Change of presentation of Alior Bank's IT costs in the consolidated profit and loss account

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

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

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

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

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

(in millions of PLN)

5.3.7. 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 2016 *(historical)*	Adjustment	31 December 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Other assets	871	7 [1] (12) [2]	866	813	(12) [2]	801
Financial assets	105,300	(14) [1]	105,286	89,229	-	89,229
Available for sale	11,635	17 [1]	11,652	7,745	-	7,745
Loans	54,365	(31) [1]	54,334	43,326	-	43,326
Deferred tax assets	624	9 [1]	633	369	-	369
Receivables	5,703	(51) [1] 12 [2]	5,664	3,338	12 [2]	3,350
Total assets	**125,345**	**(49) [1]**	**125,296**	**105,397**	**-**	**105,397**

[1] Change described in section 5.3.1.
[2] Change described in section 5.3.5.

Equity and liabilities	31 December 2016 *(historical)*	Adjustment	31 December 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Equity						
Equity attributable to equity holders of the Parent	13,010	(12) [1]	12,998	12,924	-	12,924
Retained earnings	2,055	(12) [1]	2,043	2,696	-	2,696
Net profit	1,947	(12) [1]	1,935	-	-	-
Non-controlling interest	4,117	(31) [1]	4,086	2,194	-	2,194
Total equity	**17,127**	**(43) [1]**	**17,084**	**15,118**	**-**	**15,118**
Other liabilities	4,997	(6) [1]	4,991	3,570	-	3,570
Total liabilities	**108,218**	**(6) [1]**	**108,212**	**90,279**	**-**	**90,279**
Total equity and liabilities	**125,345**	**(49) [1]**	**125,296**	**105,397**	**-**	**105,397**

[1] Change described in section 5.3.1.

(in millions of PLN)

Consolidated profit and loss account	1 January – 31 December 2016 *(historical)*	Adjustment	1 January – 31 December 2016 *(restated)*
Revenue from commissions and fees	808	9 [1]	817
Net investment income	4,165	(54) [2]	4,111
Net movement in fair value of assets and liabilities measured at fair value	357	(22) [2]	335
Other operating income	1,388	(9) [1] (43) [3]	1,336
Fee and commission expense	(285)	12 [4]	(273)
Interest expense	(773)	76 [2]	(697)
Administrative expenses	(2,843)	(68) [5] (12) [4]	(2,923)
Other operating expenses	(2,128)	68 [5]	(2,060)
Operating profit	**3,034**	**(43) [3]**	**2,991**
Net profit	**2,417**	**(43) [3]**	**2,374**
- profit attributable to the equity holders of the Parent Company	1,947	(12) [3]	1,935
- profit (loss) attributed to holders of non-controlling interest	470	(31) [3]	439

[1] Change described in section 5.3.2.
[2] Change described in section 5.3.3.
[3] Change described in section 5.3.1.
[4] Change described in section 5.3.6.
[5] Change described in section 5.3.4.

Consolidated cash flow statement	1 January – 31 December 2016 *(historical)*	Adjustment[1]	1 January – 31 December 2016 *(restated)*
Profit before tax	3,031	(43)	2,988
Movement in loan receivables from clients	(5,190)	31	(5,159)
Movement in receivables	(2,338)	39	(2,299)
Change in liabilities	1,967	(6)	1,961
Other adjustments	3,163	(21)	3,142
Net cash flows from operating activities	**4,237**	-	**4,237**

[1] Change described in section 5.3.1.

5.4 Consolidation rules

These consolidated financial statements for the financial year ended on 31 December 2017 include data of the parent company and all its subsidiaries after elimination of intragroup transactions.

A subsidiary is an entity that is controlled by another entity. That means that the latter simultaneously has: power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

Consolidation involves the combination of similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent company and its subsidiaries and then elimination of the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary. Also, assets and liabilities, revenue, costs and cash flows relating to intragroup transactions within PZU Group are eliminated in full.

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

Subsidiaries are consolidated from the date of obtaining control until the date cessation of control.

The rules applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies are presented in section 5.5.

5.4.1. Judgments in exercising control

In order to determine whether PZU Group has rights that are sufficient to give it power, that is practical ability to direct the relevant activities unilaterally, the PZU Group analyzes among others:

- how many votes it holds at the shareholder meeting and whether it holds more votes than other investors (including potential voting rights and rights resulting from other contractual arrangements);
- how many entities would have to act together in order to outvote the PZU Group;
- distribution of votes at previous shareholder meetings;
- if the key personnel of the entity or members of the investee's governing body are related parties of the PZU Group;
- capacity to appoint members of management and supervisory bodies of the entity;
- commitments, if any, to ensure that an investee continues to operate as designed;
- capacity to obligate the entity to perform or prevent it from performing significant transactions;
- other prerequisites.

The analysis of prerequisites for exercising control over Pekao and Alior Bank as at 31 December 2017 is presented in the table below.

Criterion	Pekao	Alior Bank
Share in votes at the shareholder meeting	20.02%	32.23%
Other shareholders	Only one shareholder holds a stake of more than 5%. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.	Only two shareholders hold stakes between 4% and 9%. The remaining shareholders are dispersed and a significant number of entities would have to take concerted action to outvote PZU at the shareholder meeting.
Shareholder agreements	Detailed information on the Shareholders Agreement concluded between PZU and PFR is presented in section 2.4.1. It provides for the possibility of having real influence on Pekao's operating policies. The Management Board of PZU does not have any information about any agreements that may have been concluded between Pekao's other shareholders.	The Management Board of PZU does not have any information about any agreements that may have been concluded between Alior Bank's other shareholders.
Potential voting rights	No potential voting rights have been identified.	No potential voting rights have been identified.
Capacity to adopt resolutions in line with PZU's intentions	The analysis of attendance at past shareholder meetings does not provide clear grounds for denying control.	During all the shareholder meetings that were held after control was obtained by PZU, all the resolutions were adopted in line with PZU's intentions.
PZU representatives in governing bodies	The work of the 5-strong Management Board is headed by Michał Krupiński, former President of the PZU Management Board. The Chairman of the 9-strong Supervisory Board is Paweł Surówka – President of the PZU Management Board. Additionally, the Supervisory Board includes: Paweł Stopczyński – Director of the PZU Corporate Oversight Department and Grzegorz Janas – Director of the PZU Investment Analysis Department. It also contains members proposed by PZU: Justyna Michalak-Głębikowska and Michał Kaszyński.	The Chairman of the 8-strong Supervisory Board is Tomasz Kulik, Member of the PZU Management Board (CFO). Other members of the Supervisory Board include: Maciej Rapkiewicz – Member of the PZU Management Board (CRO) and Sławomir Niemierka – PZU Managing Director responsible for Regulations.
Investor commitments and exposure to variability of returns	In connection with bancassurance, assurbanking activities, joint initiatives in the cost areas, including IT and real property, between PZU and Pekao, PZU will have access to financial results, activities and operations that are not available to other shareholders of Pekao.	The PZU Group has undertaken investor commitments towards Alior Bank and conducts operations together with Alior Bank. This which means that it has greater exposure to the variability of Alior Bank's financial results than it is implied by the stake it holds in Alior Bank's equity.

In the light of the above prerequisites, it has been determined that the PZU Group exercises control both over Pekao (continuously since 7 June 2017) and over Alior Bank (continuously since 18 December 2015) and over their subsidiaries and accordingly they were consolidated.

Rules of consolidation of mutual funds

The PZU Group has assumed that it exercises control over a mutual fund if the following conditions are jointly met:

- PZU Group companies jointly have the capacity to exercise their authority over the fund to influence the value of the return on investment, with the prerequisites for this capacity being, among others, control exercised over the mutual fund company and a significant share in the total number of votes at the meeting of investors or board of investors;
- the total exposure of PZU Group companies to variable returns from their involvement in a mutual fund is significant, which means that the total share of PZU Group companies in the fund's net assets equals or exceeds 20% (whereas the fund's assets that are net assets of unit-linked contracts are not used to determine this total share). If the involvement is less than 20% of the fund's net assets then the exposure to fluctuations in the fund's financial results, considered together with decision-making powers, imply that such a fund is not controlled by the Group.

PZU Group accepts that a fund will remain consolidated (or unconsolidated, as the case may be) for a period of two quarters following a quarter that closed for the first time with a decline (or increase, as the case may be) of the share in the fund's net assets below 20% (or above 20%, as the case may be) if this decline (or increase, as the case may be) resulted from deposits (or withdrawals, as the case may be) made by participants from outside the PZU Group.

The mutual funds controlled by the PZU Group are consolidated. Their assets are presented in their full amount in the statement of financial position as financial assets by type and classified to the relevant portfolios, while the liability related to the fund's net assets owned by third-party investors is recognized in "Financial liabilities". If control over a mutual fund is lost then its consolidation ceases and the fund's assets and liabilities, as well as liabilities to its participants, if any, are excluded from the consolidated statement of financial position. Instead, the participation units or the investment certificates corresponding to the fair value of shares held by PZU Group companies in the fund's net assets are presented.

5.5 Measurement of transactions and balances denominated in foreign currencies and FX rates used

Transactions carried out in a currency other than Polish zloty are recognized at the exchange rate set by the National Bank of Poland (NBP) for the transaction date. At the end of the reporting period, cash items denominated in foreign currencies are translated using the average NBP exchange rate in effect on that date. Non-cash items measured at fair value and denominated in foreign currencies are measured using the average NBP exchange rate in effect on the date on which the fair value is determined. Gains and losses on currency translation are recognized directly in the profit and loss account.

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.

Translation differences are recognized under "Foreign exchange translation differences" in equity.

(in millions of PLN)

The following FX rates have been used for these consolidated financial statements:

FX rates used for translation of financial data of foreign related parties	1 January – 31 December 2017	1 January – 31 December 2016	31 December 2017	31 December 2016
Euro	4.2447	4.3757	4.1709	4.4240
pound sterling	4.7694	n/a	4.7001	n/a
Ukrainian hryvnia	0.1402	0.1542	0.1236	0.1542

5.6 Purchase method

Acquisitions of subsidiaries by the PZU Group are recognized by the purchase method of accounting.

For each acquisition transaction, the acquirer is identified and the acquisition date is determined, which is the date on which the acquirer obtains control over the acquiree. As of the acquisition date, the acquirer recognizes, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

As at the date of acquisition, the identifiable assets acquired and the liabilities assumed are measured at fair value.

For each acquisition, any non-controlling interest in the acquiree are measured at the non-controlling interest's proportionate share in the fair value of the acquiree's identifiable net assets.

The fair value measurement of assets and liabilities is associated with significant uncertainty regarding estimates, as it requires the Management Board of PZU to develop professional judgments and make use of complex and subjective assumptions. Relatively small changes in key assumptions may have a significant impact on the results of the measurement. Key assumptions include, among others: discount rates, credit risk costs, prepayment rates for performing portfolios and the timing and amount of expected cash flows for non-performing portfolios.

Determination of goodwill or a gain from a bargain purchase

Goodwill is measured and recognized as at the acquisition date as the surplus of:

- the consideration transferred measured at acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree measured as described above;
- the acquisition-date fair value of the PZU Group's previously held equity interest in the acquiree;

over the acquisition-date net amount of the fair value of the identifiable assets acquired and the liabilities assumed.

If the net fair values of identifiable assets acquired and the liabilities assumed exceeds the fair value of payment received, the gain from a bargain purchase is recognized in the consolidated profit and loss account. Before a gain from a bargain purchase is recognized, a reassessment is made whether all of the assets acquired and all of the liabilities assumed have been correctly identified and all additional assets or liabilities have been are recognized.

In the period of maximum 1 year from taking the control, PZU Group may retrospectively adjust the provisional fair values of assets and liabilities recognized as at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of these assets and liabilities. Such adjustments are charged directly to the recognized goodwill or gain from a bargain purchase.

Intangible assets

Intangible assets acquired in business combination transactions are recognized at fair value as at the acquisition date. The fair value of an intangible asset reflects expectations as to the probability that the entity achieves economic benefits from the asset in the future. The fair value of intangible assets is determined as follows:

- trademark – using the relief-from-royalty method, based on potential savings on the license fees that the company is not required to pay as the owner of the trademark (i.e. present value of future potential license fees). The market level of license fees is determined by analyzing license fee rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are determined as the product of the assumed license fee rate and the amount of the estimated sales revenues. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. Then the calculated net cash flows are increased by the potential tax relief arising from the tax amortization benefit (TAB) of the trademark. Finally, the calculated cash flows are discounted using the discount rate reflecting, among others, risk typical for a given trademark;

- relations with brokers and relations with clients – using the multiperiod excess earnings method (MEEM), based on the present value of future profits generated by each relation. Fair value is then determined based on discounted future cash flows resulting from the excess income generated by a company in possession of the relevant intangible asset over revenues generated by a company without such an asset. The relations are identified and then their life expectancy is determined (by applying the applicable attrition ratio using the Weibull curve) and revenues and costs associated with each relation are projected. The identified and calculated CAC (contributory asset charge), including maintenance of capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. If there are any tax structures in place that allow an average market participant to amortize a relation then its measurement should include TAB;
- value in force (VIF) – future profit from the purchased portfolio of insurance contracts – as a potential excess of the carrying amount of technical provisions over their fair value, taking account of deferred acquisition costs. Fair value of technical provisions is determined as the expected value of nominal cash flows projected using actuarial methods appropriate for particular provision types, including the specific nature of a given portfolio and market trends. The expected value of future cash flows is determined by discounting projected nominal cash flows using discount rates established on the basis of the risk-free rate curve. The projected nominal cash flows take into account the probability of occurrence and the amount of: future claims, claims handling expenses (direct and indirect) and, in the case of the provision for unearned premiums, also administrative expenses related to administration of the insurance portfolio. The estimates take into account the reinsurer’s share resulting from binding reinsurance contracts. The relevant probability of occurrence is estimated using statistical and actuarial methods, while the cash flow level is determined from relevant provisions of insurance contracts and actuarial analysis;
- IT systems – the gross value of purchased systems was assumed to be equal to the financial expenditure made to purchase them. For systems developed internally, their gross value is established at the amount of capitalized expenditures made to develop them. The amounts calculated using this method are then adjusted by the remaining operational life of the system, which is calculated as a percentage of the period of the system’s useful life. The fair value of systems under development is adjusted to the amount of expenditures made on the functionalities for which the development work has not been completed or which have not been tested and thus are not ready for production acceptance;
- relations with customers holding savings and checking accounts (CDI, core deposit intangible) – as the present value of the difference between the cost of the CDI and the alternative borrowing costs (including interest and administrative expenses) that the bank would have to incur if it had no core deposit. The value of CDI is measured using the favorable source of funds method derived from the expense and income methods. In this method, the account retention ratio is projected (using the Weibull curve), the average initial balance and the number of accounts to be included in the measurement are estimated and the net balance of deposits is calculated (adjusted by the retention ratio and the unstable part of the deposit base). Then the cost of acquired deposits is calculated as reserve requirements, interest and administration expenses less net commission income from the accounts. Next, interest rate benchmarks are used to estimate the alternative borrowing cost. In the next step, the difference between the alternative borrowing costs and the cost of acquired deposits is calculated, which is discounted using the required rate of return. The measurement of CDI does not include any tax amortization benefit (TAB).

The discount rate used for the measurement of intangible assets reflects the time value of money and risks related to expected future cash flows. It is calculated on the basis of the expected return from the best investment alternative to the investment being measured. This rate sets the lowest return from the measured asset that is required by an investor in such a manner that the rate of return achieved by the investor is at least equal to the best available investment alternative. The return on the alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the date of obtaining control in accordance with the Capital Asset Pricing Model (CAPM): CE = RF + ERP x β + SP + SR, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks associated with the business, SP – small cap premium, SR – specific risk premiums.

Loans and advances to customers

The measurement of the loan portfolio to fair value was performed using the income method involving the discounting of future cash flows arising from the loan portfolio component being measured. For performing loans, fair value was estimated as the present value of cash flows defined as the sum of the contractual installments of principal and interest (in accordance with the contractual margin rates and outstanding principal), adjusted by prepayments where relevant. The following is used to discount cash flows:

- interest rate determined based on money market instruments and derivative transactions (standard curve) taking into account the term structure and currency of the loan
- credit spread (credit spread curve) taking into account the term structure, broken down into the credit risk level of the client or the transaction;
- liquidity margin (liquidity curve) taking into account the term structure and currency of the loan;
- market margin, taking into account the cost of capital and profit margin, broken down into client segment, type and currency of the product.

For measurement purposes, the loan portfolio has been divided by currencies, product groups, risk level and client segments.

The standard curve was calculated on the basis of quotations for deposits for nodes up to 1 year and IRS transactions for nodes above 1 year.

The credit spread curve was calculated on the basis of estimated cumulative probability of default curves and expected average recovery rates for a given product group and client segment.

The liquidity curve for PLN was determined as the higher of zero or the difference between the PLN:BOND curve (zero-coupon curve based on Treasury bond prices) and the PLN:Std curve. For other currencies, the liquidity curve was increased by the cost of a swap converting PLN into the currency in question (calculated from FX Swap and Cross Currency Basis Swap quotations). When the cost was negative, the value of zero was assumed.

Market margin was calibrated for loans granted in the period of 3 months preceding the date of obtaining control, so that the fair value is equal to the gross carrying amount. If the market margin became negative following the calibration, it was assumed to be zero. For foreign currency mortgage loans, the margin was determined as the margin for PLN mortgage loans plus the difference in the average margin between mortgage loans granted in foreign currencies and the average margin of PLN mortgage loans.

For short-term working capital loans, the net carrying amount was taken as fair value.

Analyses have shown that the fair value of impaired loans did not differ materially from their carrying amount.

Property, plant and equipment

Property is measured using the income method, while other tangible assets – using market or replacement method.

Technical provisions

Technical provisions are recognized in the previous carrying amount. The difference between the fair value and the carrying amount of technical provisions is charged to intangible assets (future profit from the purchased portfolio of insurance contracts).

Liabilities arising from unfavorable (liability-generating) lease agreements

In order to determine the fair value of liabilities arising from unfavorable (liability-generating) real property lease agreements, an analysis was carried out of the standard market lease rates in various locations at the time of determination of the fair value. Then these rates were compared to the amounts resulting from the lease agreements. Due to the large number of such agreements, the analysis was conducted on a sample of agreements concluded in different years. The differences obtained on the examined sample for a given year of execution were then extrapolated to the entire portfolio of agreements concluded in such a year. In the determination of the fair value, no renegotiation or termination of the lease agreements prior to the end date of the agreement was assumed (in particular for agreements where the contractual rate of rent differed from the estimated market rate). Based on the leased area, the location of the real property, the term of the lease and the difference between the market rate and the rate actually paid, cash flows were projected along with the dates of their occurrence in the projection period. These cash flows were then discounted as at the valuation date using a risk-free rate. The value of the discounted cash flows represents the fair value of the liability as at the valuation date.

5.7 Classification of insurance contracts in accordance with IFRS 4

The PZU Group Companies conducting insurance activity apply the guidelines set forth in IFRS 4 concerning the classification of their products as insurance contracts subject to IFRS 4 or as investment contracts. A contract meets the definition of an insurance contract only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction) and thus if a contract transfers considerable insurance risk.

The assessment whether a contract transfers considerable insurance risk requires analysis of the cash flows related to a product in various scenarios and estimating the probability of such scenarios. Such an assessment includes an element of subjective judgment, which has significant influence on the accounting principles applied. According to the assumptions made by the PZU Group, we are dealing with considerable insurance risk when the occurrence of an insured event results in disbursement of a benefit that is at least 10% higher than the benefit that would be paid had the event not occurred. Based on this criterion, concluded contracts are recognized either according to IFRS 4 or according to IAS 39.

5.7.1. Classification of non-life insurance contracts

Analysis has shown that all non-life insurance contracts transfer considerable insurance risk and accordingly they are governed by the requirements of IFRS 4.

Additionally, insurance contract accounting is still applied to financial guarantees that meet the definition of a financial instrument.

5.7.2. Classification of life insurance contracts

Analysis has shown that PZU Group's offer contains products that do not transfer significant insurance risk (including certain products with guaranteed rate of return and some unit-linked products) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified in the consolidated financial statements as investment contracts measured in accordance with IAS 39 at amortized cost or fair value (depending on the structure of each product).

Investment contracts include, among others: Pewny Zysk individual life and endowment insurance (recognized at amortized cost), unit-linked PZU IKZE insurance and Program Inwestycyjny Prestige [Prestige Investment Program] (recognized at fair value).

Both insurance contracts and investment contracts may include discretionary participation features (DPF). They entitle the insured to receive an additional benefit or a bonus in addition to the guaranteed claim. Such a benefit is constitutes a significant portion of the total contractual claim; its amount or term are contractual and they depend on the insurer's discretion, whereas their occurrence depends on:

- history of the specified set or type of contracts;
- whether or not profit is realized on specified assets;
- whether the insurer, a fund or another entity related to the agreement makes profit or incurs loss.

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 4.

Additionally, no life insurance contracts have been identified which would provide for a simultaneous transfer of insurance risk and financial risk and require unbundling of insurance and investment components. In the case of contracts where unbundling of embedded options is permitted but not required under IFRS 4 (such as the right to surrender a contract, convert it into a funded contract, guaranteed annuity for a pre-defined premium, indexation of the sum insured and premiums), the investment component is not unbundled.

6. Segment reporting

6.1 Reportable segments

6.1.1. 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

Segment	Accounting standards	Segment description	Aggregation criteria
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.	

6.1.2. 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.

6.2 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.

6.3 Segment's measure of profit

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

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

6.4 Accounting policies applied according to PAS

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

6.4.2. PZU Życie

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

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

The fundamental difference between PAS and IFRS in respect of accounting for insurance agreements and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance agreements. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 on the classification of products as insurance agreements (subject to IFRS 4) or investment contracts (measured according to IAS 39). In the case of the latter the written premium is not recognized. The classification of those contracts is described in section 5.7.

6.5 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;

(in millions of PLN)

- 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.

6.6 Quantitative data

Corporate insurance (non-life insurance)	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Gross written premium – external	2,673	2,136
Gross written premium – cross-segment	65	38
Gross written premiums	**2,738**	**2,174**
Movement in provision for unearned premiums and gross provision for unexpired risks	(361)	(263)
Gross earned premium	**2,377**	**1,911**
Reinsurers' share in gross written premium	(440)	(280)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	68	10
Net earned premium	**2,005**	**1,641**
Investment income, including:	85	115
external operations	85	115
intersegment operations	-	-
Other net technical income	59	74
Income	**2,149**	**1,830**
Net insurance claims and benefits	(1,323)	(1,062)
Movement in other net technical provisions	(10)	(9)
Acquisition expenses	(425)	(361)
Administrative expenses	(137)	(125)
Reinsurance commissions and profit participation	27	21
Other	(90)	(65)
Insurance result	**191**	**229**

(in millions of PLN)

Mass insurance (non-life insurance)	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Gross premiums written externally	10,029	8,742
Gross written premium – cross-segment	39	91
Gross written premiums	**10,068**	**8,833**
Movement in provision for unearned premiums and gross provision for unexpired risks	(465)	(918)
Gross earned premium	**9,603**	**7,915**
Reinsurers' share in gross written premium	(114)	(96)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	24	17
Net earned premium	**9,513**	**7,836**
Investment income, including:	482	517
external operations	482	517
intersegment operations	-	-
Other net technical income	148	59
Income	**10,143**	**8,412**
Net insurance claims and benefits	(6,069)	(5,275)
Movement in other net technical provisions	(44)	(21)
Acquisition expenses	(1,745)	(1,551)
Administrative expenses	(608)	(634)
Reinsurance commissions and profit participation	(9)	(14)
Other	(341)	(258)
Insurance result	**1,327**	**659**

Group and individually continued insurance (life insurance)	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Gross written premium – external	6,855	6,775
Gross written premium – cross-segment	-	-
Gross written premiums	**6,855**	**6,775**
Movement in the provision for unearned premiums	-	2
Gross earned premium	**6,855**	**6,777**
Reinsurers' share in gross written premium	(1)	(1)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**6,854**	**6,776**
Investment income, including:	720	680
external operations	720	680
intersegment operations	-	-
Other net technical income	2	1
Income	**7,576**	**7,457**
Net insurance claims and benefits and movement in other net technical provisions	(5,142)	(4,686)
Acquisition expenses	(332)	(329)
Administrative expenses	(587)	(585)
Other	(65)	(72)
Insurance result	**1,450**	**1,785**

(in millions of PLN)

Individual insurance (life insurance)	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Gross written premium – external	1,664	1,174
Gross written premium – cross-segment	-	-
Gross written premiums	**1,664**	**1,174**
Movement in the provision for unearned premiums	(2)	-
Gross earned premium	**1,662**	**1,174**
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	**1,662**	**1,174**
Investment income, including:	419	288
external operations	419	288
intersegment operations	-	-
Other net technical income	-	-
Income	**2,081**	**1,462**
Net insurance claims and benefits and movement in other net technical provisions	(1,672)	(1,043)
Acquisition expenses	(135)	(107)
Administrative expenses	(61)	(59)
Other	(4)	(9)
Insurance result	**209**	**244**

Investments	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Investment income, including:	1,696	440
- external operations	111	(570)
- intersegment operations	1,585	1,010
Operating result	**1,696**	**440**

Banking activity	1 January 2017 – 31 December 2017	1 January 2016 – 31 December 2016
Revenue from commissions and fees	2,144	599
Investment income, including:	6,506	2,119
- external operations	6,506	2,119
- intersegment operations	-	-
Income	**8,650**	**2,718**
Fee and commission expense	(539)	(248)
Interest expense	(1,264)	(605)
Administrative expenses	(3,754)	(1,290)
Other [1)]	(606)	73
Operating result	**2,487**	**648**

[1)] The change in the position between periods resulted from the recognition in 2016 of the one-off gain from a bargain purchase of Bank BPH's Core Business in the amount of PLN 465 million and the recognition in 2017 of Pekao's financial data for the period of control by PZU

(in millions of PLN)

Pension insurance	**1 January 2017 – 31 December 2017**	**1 January 2016 – 31 December 2016**
Investment income, including:	6	5
external operations	6	5
intersegment operations	-	-
Other income	128	110
Income	**134**	**115**
Administrative expenses	(44)	(41)
Other	(3)	-
Operating result	**87**	**74**

Insurance - Baltic States	**1 January 2017 – 31 December 2017**	**1 January 2016 – 31 December 2016**
Gross premiums written externally	1,404	1,183
Gross written premium – cross-segment	-	-
Gross written premiums	**1,404**	**1,183**
Movement in provision for unearned premiums and gross provision for unexpired risks	(117)	(48)
Gross earned premium	**1,287**	**1,135**
Reinsurers' share in gross written premium	(42)	(33)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	3	2
Net earned premium	**1,248**	**1,104**
Investment income, including:	20	23
external operations	20	23
intersegment operations	-	-
Income	**1,268**	**1,127**
Net insurance claims and benefits	(773)	(694)
Acquisition expenses	(275)	(251)
Administrative expenses	(111)	(110)
Other	-	-
Insurance result	**109**	**72**

(in millions of PLN)

Insurance - Ukraine	**1 January 2017 – 31 December 2017**	**1 January 2016 – 31 December 2016**
Gross written premium – external	223	210
Gross written premium – cross-segment	-	-
Gross written premiums	**223**	**210**
Movement in provision for unearned premiums and gross provision for unexpired risks	(20)	(16)
Gross earned premium	**203**	**194**
Reinsurers' share in gross written premium	(88)	(93)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	8	8
Net earned premium	**123**	**109**
Investment income, including:	18	23
external operations	18	23
intersegment operations	-	-
Income	**141**	**132**
Net insurance claims and benefits	(56)	(54)
Acquisition expenses	(69)	(60)
Administrative expenses	(23)	(24)
Other	18	21
Insurance result	**11**	**15**

Investment contracts	**1 January 2017 – 31 December 2017**	**1 January 2016 – 31 December 2016**
Gross written premium	44	86
Movement in the provision for unearned premiums	-	-
Gross earned premium	**44**	**86**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**44**	**86**
Investment income, including:	18	18
external operations	18	18
intersegment operations	-	-
Other income	-	-
Income	**62**	**104**
Net insurance claims and benefits and movement in other net technical provisions	(50)	(89)
Acquisition expenses	(1)	(4)
Administrative expenses	(7)	(9)
Other	-	-
Operating result	**4**	**2**

(in millions of PLN)

Other segments	**1 January 2017 – 31 December 2017**	**1 January 2016 – 31 December 2016**
Investment income, including:	5	1
- external operations	5	1
- intersegment operations	-	-
Other income	946	806
Income	**951**	**807**
Costs	(1,038)	(843)
Other	33	17
Operating result	**(54)**	**(19)**

Reconciliations 1 January 2017 – 31 December 2017	**Net earned premium**	**Investment income**	**Net insurance claims and benefits**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	2,005	85	(1,323)	(425)	(137)	191
Mass insurance	9,513	482	(6,069)	(1,745)	(608)	1,327
Group and individually continued insurance	6,854	720	(5,142)	(332)	(587)	1,450
Individual insurance	1,662	419	(1,672)	(135)	(61)	209
Investments	-	1,696	-	-	-	1,696
Banking activity	-	6,506	-	-	(3,754)	2,487
Pension insurance	-	6	-	(4)	(44)	87
Insurance - Baltic States	1,248	20	(773)	(275)	(111)	109
Insurance - Ukraine	123	18	(56)	(69)	(23)	11
Investment contracts	44	18	(50)	(1)	(7)	4
Other segments	-	5	-	-	-	(54)
Total segments	**21,449**	**9,975**	**(15,085)**	**(2,986)**	**(5,332)**	**7,517**
Presentation of investment contracts	(44)	(10)	50	-	-	-
Estimated salvage and subrogation	-	-	23	-	-	23
Valuation of equity instruments	-	(12)	-	-	-	(12)
Measurement of properties	-	(7)	-	-	(1)	(10)
Elimination of the equalization provision and prevention fund	-	-	55	-	-	60
Charges for the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	(20)	(20)
Consolidation adjustments [1)]	(51)	(1,444)	16	85	(11)	(2,048)
Consolidated data	**21,354**	**8,502[2)]**	**(14,941)**	**(2,901)**	**(5,364)**	**5,510**

(in millions of PLN)

Reconciliations 1 January 2016 – 31 December 2016	Net earned premium	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,641	115	(1,062)	(361)	(125)	229
Mass insurance	7,836	517	(5,275)	(1,551)	(634)	659
Group and individually continued insurance	6,776	680	(4,686)	(329)	(585)	1,785
Individual insurance	1,174	288	(1,043)	(107)	(59)	244
Investments	-	440	-	-	-	440
Banking activity	-	2,119	-	-	(1,290)	648
Pension insurance	-	5	-	(4)	(41)	74
Insurance - Baltic States	1,104	23	(694)	(251)	(110)	72
Insurance - Ukraine	109	23	(54)	(60)	(24)	15
Investment contracts	86	18	(89)	(4)	(9)	2
Other segments	-	1	-	-	-	(19)
Total segments	**18,726**	**4,229**	**(12,903)**	**(2,667)**	**(2,877)**	**4,149**
Presentation of investment contracts	(86)	(7)	89	-	-	-
Estimated salvage and subrogation	-	-	30	-	-	30
Valuation of equity instruments	-	55	-	-	-	55
Measurement of properties	-	22	-	-	1	(19)
Elimination of the equalization provision and prevention fund	-	-	29	-	-	27
Charges for the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	(24)	(24)
Consolidation adjustments [1)]	(15)	(788)	23	54	(23)	(1,227)
Consolidated data	**18,625**	**3,511** [2)]	**(12,732)**	**(2,613)**	**(2,923)**	**2,991**

[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 and impairment losses on investments" and "Net movement in fair value of assets and liabilities measured at fair value".

Geographic breakdown 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	21,220	1,404	223	-	22,847
Gross written premium – cross-segment	53	-	-	(53)	-
Revenue from commissions and fees	2,341	-	-	-	2,341
Net investment income	9,018	15	18	-	9,051
Net result on realization and impairment losses on investments	(958)	(2)	-	-	(960)
Net movement in fair value of assets and liabilities measured at fair value	404	7	-	-	411
Non-current assets, other than financial assets [1)]	6,438	240	4	-	6,682
Deferred tax assets	1,575	-	2	-	1,577
Assets	316,335	2,190	267	(1,387)	317,405

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

(in millions of PLN)

Geographic breakdown Year 2016 (restated data)	**Poland**	**Baltic States**	**Ukraine**	**Not allocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premium – external	18,826	1,183	210	-	20,219
Gross written premium – cross-segment	105	-	-	(105)	-
Revenue from commissions and fees	817	-	-	-	817
Net investment income	4,076	13	22	-	4,111
Net result on realization and impairment losses on investments	(934)	(1)	-	-	(935)
Net movement in fair value of assets and liabilities measured at fair value	323	11	1	-	335
Non-current assets, other than financial assets [1)]	2,650	276	4	-	2,930
Deferred tax assets	631	-	2	-	633
Assets	124,461	2,021	262	(1,448)	125,296

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

6.7 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). Note 48.4 presents revenues earned from largest customers of the PZU Group that are subsidiaries of the State Treasury.

7. Risk management

7.1 Introduction

The objective of risk management is to:

- enhance the PZU Group's value through active and deliberate management of the extent of risk taken;
- prevent the acceptance of risk at a level that could pose a threat to the PZU Group's financial stability.

Risk management in the PZU Group is based on risk analysis in all processes and units. Risk management is an integral part of the management system.

The main elements of risk management are consistent for all PZU Group companies and implemented to ensure the execution of strategic plans of the individual companies as well as business objectives of the entire PZU Group. They include the following:

- systems of limits and limitations on the acceptable level of risk, including the level of risk appetite;
- processes involving the identification, measurement and assessment, monitoring and controlling, reporting and management measures pertaining to various risks;
- risk management organizational structure in which the management boards and supervisory boards of the companies and dedicated committees play a crucial role.

The risk management system in the PZU Group is based on the following:

- organizational structure – comprising a split of duties and tasks performed in the risk management process by statutory bodies, committees and individual organizational units and cells;
- risk management process, including risk identification, measurement and assessment, monitoring and control methods, risk reporting and undertaking management actions.

Risk management strategy at the PZU Group and in individual PZU Group companies defines the risk management framework by setting limits for risk parameters (defining risk appetite and describing the risk profile), identifying the roles and responsibilities of participants in the risk management process and the course of the process. It is also used to improve business planning and maintaining risk at an acceptable level.

The objective of the strategy and related management policies for individual risk categories is to:

- introduce unified definitions related to risk management;
- introduce the rules governing the identification, measurement and assessment, monitoring and controlling, reporting of risk and decision-making about risk levels;
- set the risk appetite and the risk profile.

The integrated risk management system of the PZU Group ensures compliance with the requirements of the Insurance and Reinsurance Activity Act of 11 September 2015 and covers mainly the PZU Group's insurance undertakings. Entities from other financial market sectors are obligated to apply the standards applicable to a given sector. The accepted internal regulations set out:

- processes, methods and procedures facilitating risk measurement and management;
- split of duties in the risk management process;
- scope and conditions and the frequency of risk management reporting.

PZU exercises supervision over the PZU Group's risk management system on the basis of cooperation agreements signed with other PZU Group entities. PZU uses the information received to manage the PZU Group's risk at an aggregate level. The cooperation agreements and the scope of information to be provided take into consideration the specific legal nature of each entity concerned, including limitations arising from banking secrecy rules.

In order to ensure effectiveness of risk management at the PZU Group level, the risk management rules applicable to subsidiaries have been adopted; they include PZU's recommendation regarding the organization of the risk management system (in both insurance and banking sectors).

The management boards of PZU Group entities are responsible for fulfilling their own duties in accordance with the generally applicable provisions of national, European and international law. In particular, they are responsible for the implementation of an adequate and effective risk management system.

Supervision over the risk management systems in each regulated entity is exercised by the supervisory boards to which PZU appoints its representatives.

7.2 Organizational structure

The organizational structure of the risk management system is consistent across the PZU Group. In the PZU Group's various insurance entities it has four decision-making levels.

The first three are:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in each company's articles of association and in supervisory board bylaws;
- the Management Board, which organizes the risk management system and ensures that it is operational, by adopting strategies and policies and setting the risk appetite, defining the risk profile and tolerance for individual categories of risk;
- committees, which make decisions to mitigate individual risks to a level determined by the risk appetite. The committees adopt the procedures and methodologies for mitigating the individual risks and accept individual risk limits. The PZU Group Risk Committee, established in 2016, provides support (for supervisory boards and management boards of subsidiaries) in the implementation of an effective risk management system consistent across the whole PZU Group. The operational objective of the PZU Group Risk Committee is to coordinate and supervise activities related to the Group's risk management system and processes.

The fourth decision-making level pertains to operational measures and is divided into three lines of defense:

- the first line of defense – entails ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defense – entails risk management by specialized cells responsible for risk identification, measurement, assessment, monitoring and reporting and controlling the limits;
- the third line of defense – entails internal audit that conducts independent audits of the elements of the risk management system as well as control activities embedded in the Group's operations.

At the banks (Pekao and Alior Bank), the Management Boards and Supervisory Boards, as well as Asset-Liability Management Committees play an active role in the risk management process.

The Supervisory Boards oversee the risk management process and set out a relevant strategy each year. The Management Boards are responsible, among others, for accepting policies and guidelines related to risk management and setting detailed limits for mitigating the banks' risks, as well as providing a proper mechanism to control them.

Asset-Liability Management Committees exercise daily control over market risk management, including liquidity risk, accept limits of operations on money and capital markets. They make all decisions provided that are not within exclusive powers of management boards or supervisory boards.

7.3 Risk appetite, risk profile and risk tolerance

The process of determining the risk appetite and risk limits for separate categories of risk consistent with the Group's process has been implemented in PZU Group's insurance companies. The Management Board of each company determines the risk appetite, risk profile and tolerance limits reflecting its strategic plans and the objectives of the entire PZU Group.

Risk appetite is defined as the level of risk that a company is prepared to accept in pursuit of its business objectives. The measure of risk appetite is the level of potential financial losses, the decline in asset value or the growth in the amount of liabilities within one year. The level of risk appetite is defined as the minimum capital requirement coverage ratio. Risk appetite defines the maximum level of permissible risk while setting limits and restrictions for the various partial risks and the level above which remedial actions are taken to curtail further risk expansion.

The risk profile involves quantitative limits, which offer a more precise definition of the risk appetite.

Tolerance limits are additional limits introduced for the individual risks types to mitigate potential risk.

This approach ensures the adequacy and effectiveness of the risk management system in the PZU Group and prevents the acceptance of risk levels that could jeopardize the financial stability of individual companies and the entire PZU Group. The management board of each company is responsible for setting the appropriate risk level for that company, whereas a review of the risk appetite values is conducted once a year by the unit responsible for risk. All actions are coordinated at the PZU Group level.

The key assumptions of market and liquidity risk management strategy applied by banks are included in the relevant asset and liability management policies, which are drafted on an annual basis and presented by the banks' management boards to the supervisory boards for approval. In the banking business, exposure to market and liquidity risks is formally restricted by the system of periodically updated limits that include all the measures of those risks.

7.4 Risk identification, measurement, assessment, monitoring and reporting methods

Identification, measurement, assessment, monitoring and reporting of risk and implemented management actions ensure ongoing adequacy and effectiveness of the risk management system. The risk management process in PZU Group consists of:

- identification – begins with a proposal to start developing an insurance product, buying a financial instrument, modifying an operating process and also with the moment when some other event occurs that may potentially lead to the emergence of risk. The identification process continues until the expiration of liabilities, receivables or activities associated with the risk. Risk identification involves identification of actual and potential sources of risk, which are later analyzed in terms of significance;

- measurement and assessment of risk – conducted depending on the nature of the risk type and its significance level. Risk measurement is carried out by specialized units. The risk unit in each company is responsible for the development of tools and measurement of risk in terms of risk appetite, risk profile and tolerance limits;
- monitoring and control of risk – consists of ongoing analysis of deviations from benchmarks (limits, threshold values, plans, figures from prior periods, issued recommendations and guidelines);
- reporting – allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions, which include among others: risk avoidance, risk transfer, risk mitigation, determination of risk appetite, acceptance of risk level, as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

Two levels are distinguished in the risk management process:

- PZU Group level – ensuring that the PZU Group attains its business objectives in a safe manner appropriate to the scale of the risk involved. Monitored at this level are the limits and risks specific to the PZU Group such as: catastrophic risk, financial risk, counterparty risk and risk concentration. The PZU Group provides support for the implementation of an integrated risk management system, including the introduction of compatible mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system in the PZU Group, and monitors their ongoing application. While carrying out their tasks within the integrated risk management system, the authorized persons of PZU Group cooperate with the management boards of subsidiaries and the management of areas such as finance, risk, actuary, reinsurance, investments and compliance, on the basis of appropriate cooperation agreements;
- company level – ensuring that the company attains its business objectives in a safe manner appropriate to the scale of the risk involved. Monitored at this level are the limits and risk categories specific to the company and, as part of the integrated risk management system, implemented are the mechanisms, standards and organization of an efficient operation of the internal control system (with particular emphasis on the compliance function), the risk management system (in particular in the reinsurance area) and the security management system.

7.5 Risk profile

PZU Group is exposed to the following main types of risk: credit risk (in particular related to the banks' credit portfolio), actuarial risk, market risk (in particular interest rate risk, foreign exchange risk and commodity risk), concentration risk, operational risk and compliance risk.

7.5.1. Credit and concentration risk

Credit risk is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors.

Credit risk types in the PZU Group include:

- counterparty default risk is the possibility of incurring loss as a result of default of the counterparties and debtors;
- credit risk in banking activity is the credit risk arising from activity conducted in the banking sector, associated mainly with the possibility that a debtor or borrower defaults on its obligations;
- credit risk in financial insurance is the credit risk arising from activity conducted in the financial insurance sector, associated mainly with the possibility that a client, debtor or borrower defaults on its obligations to a third party; the risk may result from a failure of a venture or adverse influence of the economic environment.

(in millions of PLN)

Concentration risk is the risk stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Exposure to credit risk in the PZU Group arises directly from banking, investment activities, activity in the financial insurance and guarantee segment and reinsurance and bancassurance operations. PZU Group distinguishes the following types of credit risk exposure:

- risk of a customer's default against PZU Group under contracted loans (in banking activity);
- risk of bankruptcy of an issuer of financial instruments in which PZU Group invests or which it trades, e.g. corporate bonds;
- counterparty default risk, e.g. reinsurance or OTC derivatives and bancassurance activity;
- risk of default of a PZU Group's customer against a third party, e.g. insurance of cash receivables, insurance guarantees.

7.5.1.1. Concentration risk arising out of lending activity

This section presents information related to lending activity of PZU Group's banks.

To prevent adverse events that could result from excessive concentration, both Pekao and Alior Bank mitigate the concentration risk by setting limits and applying concentration standards arising from both external and internal regulations. They include the following:

- rules of identifying the areas where concentration risk arises in credit activity;
- process of setting and updating limit levels;
- process of managing the limits and adopting the rules of conduct if the permitted limit level is exceeded;
- concentration risk monitoring process, including reporting;
- oversight over the concentration risk management process.

The following table presents the concentration of balance-sheet and off-balance-sheet exposures of Pekao and Alior Bank by industry, using the sections of the Polish Classification of Business Activity (PKD):

- loan amount (balance-sheet and off-balance-sheet exposure without interest, collected fees and impairment losses) less security deposits paid in cash;
- unauthorized overdrafts in current accounts;
- treasury limits less security deposits paid in cash, including debt securities issued by an entity from each section.

Industry segment	31 December 2017	31 December 2016
Wholesale and retail trade; repair of motor vehicles	17.42%	17.36%
Real estate activities	13.47%	13.85%
Public administration and defense	4.69%	0.01%
Production and supply of electricity, gas, steam, hot water	1.99%	6.19%
Construction	11.04%	15.29%
Transportation and storage	5.06%	2.77%
Manufacture of metals, fabricated metal products and machinery	3.54%	7.23%
Manufacture of chemicals, pharmaceuticals and petrochemicals	1.31%	1.38%
Manufacture of food products and beverages	4.37%	3.83%
Financial and insurance activities	6.42%	5.46%
Mining and quarrying	1.39%	0.66%
Other production	7.34%	1.45%
Other sectors	21.96%	24.52%
Total	**100.00%**	**100.00%**

The process of setting and updating concentration limits takes the following into account:

- information on the level of credit risk of limited portfolio segments and their impact on realization of assumptions related to risk appetite in terms of credit portfolio quality and capital position;
- sensitivity of limited portfolio segments to changes in the macroeconomic environment assessed in regular stress tests;
- reliable economic and market information concerning each exposure concentration area, especially macroeconomic and industry ratios, information about economic trends, including the projection of the levels of interest rates, exchange rates, political risk analysis, ratings of governments and financial institutions;
- reliable information about economic situation of companies, industries, branches, economic sectors, general economic information including news about economic and political situation of countries, as well as other information needed to evaluate concentration risk;
- interactions between different kinds of risk, i.e. credit, market, liquidity and operational risk.

Risk analysis is performed, in individual and portfolio approach. Measures are undertaken to:

- minimize credit risk for an individual loan with the assumed level of return;
- reduce overall credit risk arising from a specific credit portfolio.

In order to minimize the risk level of a single exposure, the following is assessed every time when a loan or other credit product is granted:

- reliability and creditworthiness, including detailed analysis of the source of repayment;
- collateral, which entails review of the formal, legal and economic status, including loan to value adequacy.

In order to enhance control over the risk of individual exposures, clients are monitored regularly and appropriate measures are taken if increased risk is identified.

In order to minimize credit risk arising from a particular portfolio:

- concentration limits are set and tracked;
- early warning signals are monitored;
- credit portfolio is monitored regularly, especially material credit risk parameters;
- regular stress tests are carried out.

7.5.1.2. Credit risk arising out of lending activity

Risk assessment in credit process

The provision of credit products is accomplished in accordance with loan granting methodologies appropriate for a given client segment and type of product. The internal rating process in both banks constitutes a significant part of assessing credit risk of both the client and the transaction. It is an important step in the credit decision-making process for new loans and for changes of lending terms, and in monitoring loan portfolio quality. Each bank has developed its own rating models used in the client creditworthiness assessment process, which must be completed before a credit decision is made. The models are based on external information (e.g. CBD DZ, CBD BR, BIK, BIG databases) and on internal data. Credit products are granted in the banks in accordance with the operating procedures, whose purpose is to set out the proper steps that must be taken in the credit process, identify the units responsible for those activities and the tools to be applied.

Credit decisions are made in accordance with the existing credit decision system (with decision-making powers at specific levels matching the risk level of a particular client and transaction).

In order to conduct regular assessment of accepted credit risk and to mitigate potential losses on credit exposures, the client’s standing is monitored during the lending period by identifying early warning signals and by conducting regular individual reviews of credit exposures.

(in millions of PLN)

To minimize credit risk, security interests are established in line with the level of exposure to credit risk and in accordance with the client's ability to provide the required collateral. The establishment of a security interest does not waive the requirement to examine the client's creditworthiness.

Collateral is taken to secure repayment of the loan amount with due interest and costs if the borrower fails to settle its due debt within the dates stipulated in a loan agreement and restructuring activities are not successful. Accepted forms of collateral include: guarantees, sureties, account freezes, registered pledges, transfers of title, assignments of receivables, assignment of credit insurance, promissory notes, mortgages, powers of attorney to bank accounts and security deposits (as special forms of collateral). The assets constituting collateral are reviewed in the credit process in terms of their legal capacity to establish effective security interest and also the recoverable amount in a possible enforcement procedure.

The following table presents the PZU Group's credit risk exposures on account loan receivables from clients.

Loan receivables from clients	31 December 2017			31 December 2016		
	Gross value	Impairment loss / IBNR charge [1]	Net value	Gross value	Impairment loss / IBNR charge [1]	Net value
With recognized impairment	13,514	(8,175)	5,339	4,841	(2,755)	2,086
non past due	2,493	(624)	1,869	751	(228)	523
past due	11,021	(7,551)	3,470	4,090	(2,527)	1,563
up to 1 month	225	(88)	137	235	(63)	172
1 to 3 months	395	(194)	201	223	(87)	136
3 months to 1 year	1,799	(905)	894	1,090	(570)	520
1 to 5 years	5,332	(3,770)	1,562	2,340	(1,619)	721
over 5 years	3,270	(2,594)	676	202	(188)	14
Without recognized impairment	164,782	(664)	164,118	43,219	(307)	42,912
non past due	159,566	(451)	159,115	40,110	(180)	39,930
past due	5,216	(213)	5,003	3,109	(127)	2,982
up to 30 days	3,523	(67)	3,456	2,210	(43)	2,167
over 30 days	1,693	(146)	1,547	899	(84)	815
Total	**178,296**	**(8,839)**	**169,457**	**48,060**	**(3,062)**	**44,998**

[1] Impairment loss recognized for a group of exposures used to cover losses incurred but not reported. It is recognized for exposures, for which signs of impairment have not been identified and which are grouped in accordance with the principle of homogeneity of risk profile.

Receivables from clients under impaired loans	31 December 2017			31 December 2016		
	Gross value	Impairment loss / IBNR charge [1]	Net value	Gross value	Impairment loss / IBNR charge [1]	Net value
Assessed individually	7,397	(3,941)	3,456	1,835	(761)	1,074
Assessed collectively	6,117	(4,234)	1,883	3,006	(1,994)	1,012
Total	**13,514**	**(8,175)**	**5,339**	**4,841**	**(2,755)**	**2,086**

[1] Impairment loss recognized for a group of exposures used to cover losses incurred but not reported. It is recognized for exposures, for which signs of impairment have not been identified and which are grouped in accordance with the principle of homogeneity of risk profile.

Scoring and credit rating

The rating scale differs by bank, client segment and transaction type. The following tables present the quality of credit portfolios for exposures covered by internal rating models. Because of the different rating models employed by Pekao and Alior Bank, the data are presented for each of the banks separately.

Permanent protection of credit portfolio quality is provided by continuous monitoring of timely service of loans and regular reviews of the financial and economic standing of clients and the value of accepted collateral. This process is applied to all credit exposures of individual and business clients.

(in millions of PLN)

Pekao

No comparative data is presented, as Pekao has been part of the PZU Group since 7 June 2017.

Non past due financial assets	31 December 2017
Non past due receivables, without impairment	
Retail segment	**59,052**
Mortgage-backed residential loans (1 - best class, 7 worst class)	48,725
Class 1 (0.00% <= PD < 0.06%)	10,308
Class 2 (0.06% <= PD < 0.19%)	5,220
Class 3 (0.19% <= PD < 0.35%)	21,829
Class 4 (0.35% <= PD < 0.73%)	8,464
Class 5 (0.73% <= PD < 3.50%)	1,553
Class 6 (3.50% <= PD < 14.00%)	628
Class 7 (14.00% <= PD < 100.00%)	723
Cash loans (1 - best class, 8 worst class)	10,327
Class 1 (0.00% <= PD < 0.34%)	763
Class 2 (0.34% <= PD < 0.80%)	1,597
Class 3 (0.80% <= PD < 1.34%)	2,555
Class 4 (1.34% <= PD < 2.40%)	2,424
Class 5 (2.40% <= PD < 4.75%)	1,603
Class 6 (4.75% <= PD < 14.50%)	855
Class 7 (14.50% <= PD < 31.00%)	336
Class 8 (31.00% <= PD < 100.00%)	194
Corporate client segment (1 - best class, 9 worst class)	**20,434**
Class 1 (0.00% <= PD < 0.15%)	618
Class 2 (0.15% <= PD < 0.27%)	1,401
Class 3 (0.27% <= PD < 0.45%)	2,803
Class 4 (0.45% <= PD < 0.75%)	6,073
Class 5 (0.75% <= PD < 1.27%)	3,468
Class 6 (1.27% <= PD < 2.25%)	2,494
Class 7 (2.25% <= PD < 4.00%)	1,245
Class 8 (4.00% <= PD < 8.50%)	2,247
Class 9 (8.50% <= PD < 100.00%)	85
Total non past due receivables from clients, without impairment	**79,486**

Portfolio of specialized lending exposures within the meaning of CRR Regulation – unimpaired – by supervisory classes	31 December 2017
High	1,106
Good	4,863
Satisfactory	1,272
Poor	7
Total	**7,248**

(in millions of PLN)

The following table presents the breakdown of the portfolio of loans granted to Pekao clients into loans covered and not covered by internal rating models

Exposure	31 December 2017
Loans with no recognized impairment	**129,764**
Loans to retail clients:	**62,073**
Covered by an internal rating model:	59,052
Mortgage loans	48,725
Cash loans	10,327
Other, not covered by an internal rating model	3,021
Loans to businesses:	**67,691**
Covered by an internal rating model	20,434
Portfolio of specialized lending exposures within the meaning of CRR Regulation	7,248
Debt securities not covered by an internal rating model	12,658
Other, not covered by an internal rating model	27,351
Loans with recognized impairment	**2,536**
Total loans and advances to customers [1)]	**132,300**

[1)] including finance lease receivables

Alior Bank

Non past due financial assets	31 December 2017	31 December 2016
Non past due receivables, without impairment	**45,048**	**33,681**
Retail segment	**25,318**	**18,966**
Mortgage loans, cash loans, credit cards, current account overdraft (1 - best class, 6 - worst class)	2,461	2,825
Class 1	507	602
Class 2	527	604
Class 3	648	737
Class 4	734	828
Class 5	42	48
Class 6	3	6
Loans, credit cards, current account overdraft – standard process (K1 - best class, K10 - worst class)	10,841	7,899
Class K1-K2	2,514	1,304
Class K3-K4	3,868	2,638
Class K5-K6	3,528	3,026
Class K7-K8	913	895
Class K9-K10	18	36
Mortgage loans (M1 - best class, M10 - worst class)	12,016	8,242
Class M1-M2	34	32
Class M3-M4	747	648
Class M5-M6	3,637	3,008
Class M7-M8	2,763	2,189
Class M9-M10	543	428
No scoring	4,292	1,937
Business segment	**19,730**	**14,715**
Long-term products, car financing loans, current account overdraft limits (1 - best class, 5 - worst class)	6	14
Class 1	1	1
Class 2	1	7
Class 3	3	3
Class 4	1	3
Class 5	-	-

(in millions of PLN)

Non past due financial assets	31 December 2017	31 December 2016
Models for microbusinesses without full accounting Models for businesses with full accounting, car dealers and developers (Q01 - best class, Q25 - worst class)	19,724	14,701
Class Q01-Q05	239	345
Class Q06-Q10	4,607	3,099
Class Q11-Q15	7,830	6,554
Class Q16-Q20	4,304	2,938
Class Q21-Q25	772	661
Unrated	1,972	1,104
Non past due receivables, with recognized impairment	**988**	**297**
Retail segment	68	60
Business segment	920	237
Total non past due receivables from clients	**46,036**	**33,978**

Bank BPH's Core Business, acquired by Alior Bank, uses a different rating model, the 31 December 2016 figures for this part are presented separately.

31 December 2016	Average PD	Retail segment	Business segment	Total
	0.10%	5	184	189
	0.50%	145	904	1,049
	1.30%	737	1,350	2,087
	3.20%	2,497	695	3,192
	8.20%	502	159	661
	over 20%	149	18	167
	Portfolio with signs of impairment	-	96	96
	Unrated	19	64	83
Non past due receivables, without impairment		**4,054**	**3,470**	**7,524**
Non past due receivables, with impairment		47	153	200
Total non past due receivables from clients		**4,101**	**3,623**	**7,724**

7.5.1.3. Application of forbearance and related practices

The forbearance practices are used if a threat arises that a client may default on the terms of a contract because of the financial difficulties. In such circumstances, contract terms may be amended in a way that allows a borrower to service or refinance the debt in full or in part. Changes in terms and conditions of contracts may include: reductions of interest rates, principal installment amounts, accrued interest, rescheduling of principal or interest payments.

(in millions of PLN)

Assessment of impairment of exposures subject to forbearance practices

Stricter criteria for identifying signs of impairment are applied to exposures subject to forbearance practices. In addition to the standard catalogue of signs of impairment, additional criteria are applied, which are defined as occurrence of one of the following situations when the forbearance decision is made:

- more than 30 days past due;
- analyst's assessment that timely service is at risk (for retail clients);
- economic and financial standing assessed as sub-standard or worse (for business clients).
- other evidence of impairment.

Loans granted to clients subject to forbearance	31 December 2017	31 December 2016
Retail segment	**543**	**184**
without recognized impairment	212	66
with recognized impairment	628	294
IBNR	(6)	(1)
impairment losses	(291)	(175)
assessed by the individual method	(6)	-
assessed by the portfolio method	(285)	(175)
Business segment	**2,317**	**616**
without recognized impairment	797	189
with recognized impairment	3,315	636
IBNR	(8)	(2)
impairment losses	(1,787)	(207)
assessed by the individual method	(1,735)	(157)
assessed by the portfolio method	(52)	(50)
Total net receivables	**2,860**	**800**

Loans granted to clients subject to forbearance	31 December 2017	31 December 2016
With recognized impairment	1,865	547
of which value of collateral	1,253	340
Without recognized impairment	995	253
of which value of collateral	885	143
non past due	760	109
past due	235	144
Total net receivables	**2,860**	**800**

Movement in net carrying amount of forborne exposures	31 December 2017	31 December 2016
Opening balance	800	356
Value of exposures recognized in the period	974	236
Value of exposures excluded in the period	(569)	(46)
Movements in impairment losses	(28)	(35)
Change in the composition of the Group	2,051	-
Other changes	(368)	289
Total net receivables	**2,860**	**800**

7.5.1.4. Credit risk arising out of investing activity

The management principles for credit risk arising from investing activity in the PZU Group are governed by a number of documents approved by supervisory boards, management boards and dedicated committees.

Credit risk and concentration risk limits are set by dedicated committees.

Limits for banks and other issuers of debt securities are set in reference to exposure levels. The limits take the form of exposure limits to a single entity or a group of entities (this applies to both credit limits and concentration limits). The use of credit risk and concentration risk limits is monitored. Exceeding a limit entails an obligation to prepare and present an exposure reduction plan.

Credit risk assessment of an entity is based on internal credit ratings (the approach to rating differs by type of entity). Ratings are based on quantitative and qualitative analyses and provide the basis for setting the limits. Ratings are updated for credit quality monitoring purposes.

Information on the credit quality of assets related to investing activity is presented in section 33.7.

Exposure to credit risk

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

The tables do not include loan receivables from clients and receivables due under insurance contracts. This was because these asset portfolios are very dispersed and therefore contains a significant percentage of receivables from unrated entities and individuals.

(in millions of PLN)

Credit risk assets as at 31 December 2017	Note	AAA	AA	A	BBB	BB	Unrated	Assets at client's risk	Total
Debt securities		560	725	65,897	2,712	598	24,612	1,290	96,394
- held to maturity	33.2	-	-	20,941	59	58	179	-	21,237
- available for sale	33.3	-	725	34,865	289	41	11,935	-	47,855
- at fair value through profit or loss	33.4	560	-	9,964	962	499	404	1,290	13,679
- loans	33.6	-	-	127	1,402	-	12,094	-	13,623
Term deposits with credit institutions and buy-sell-back transactions	33.6	-	8	960	903	8	759	88	2,726
Other loans	33.6	-	-	-	-	282	3,416	-	3,698
Derivatives [1)]	33.4 33.5 7.5.3	-	127	952	212	-	1,020	40	2,351
Reinsurers' share in claims provisions	38	-	156	452	-	-	167	-	775
Reinsurance receivables	34	-	9	25	8	-	26	-	68
Total		**560**	**1,025**	**68,286**	**3,835**	**888**	**30,000**	**1,418**	**106,012**

[1)] including derivatives of PLN 347 million designated as cash flow or fair value hedges.

Credit risk assets as at 31 December 2016	Note	AAA	AA	A	BBB	BB	Unrated	Assets at client's risk	Total
Debt securities		149	5	39,100	2,930	583	1,005	1,239	45,011
- held to maturity	33.2	-	-	16,991	206	49	100	-	17,346
- available for sale	33.3	-	5	10,552	297	11	353	-	11,218
- at fair value through profit or loss	33.4	149	-	10,728	1,207	523	138	1,239	13,984
- loans	33.6	-	-	829	1,220	-	414	-	2,463
Term deposits with credit institutions and buy-sell-back transactions	33.6	-	-	4,330	519	-	99	217	5,165
Other loans	33.6	-	-	33	-	76	1,599	-	1,708
Derivatives [1)]	33.4 33.5 7.5.3	-	10	505	62	-	354	22	953
Reinsurers' share in claims provisions	38	-	304	231	1	-	77	-	613
Reinsurance receivables	34	-	25	31	-	-	20	-	76
Total		**149**	**344**	**44,230**	**3,512**	**659**	**3,154**	**1,478**	**53,526**

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

(in millions of PLN)

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

Standard&Poor's ratings	AAA	AA	A	BBB	BB	Unrated [1]
2017 coefficient	0.72%	0.77%	1.41%	3.76%	13.33%	25.43%
2016 coefficient	0.72%	0.79%	1.48%	3.89%	13.45%	25.37%

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

The credit risk level attributable to the assets where the risk is carried by the PZU Group as at 31 December 2017 was PLN 8,866 million (as at 31 December 2016 it was PLN 1,684 million; if the coefficients of 31 June 2017 were used, the value would be PLN 1,649 million).

7.5.1.5. Reinsurer's credit risk in insurance activity

PZU Group enters into proportional and non-proportional reinsurance contracts aiming to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk associated with the risk that a reinsurer default on its obligations.

Assessment of reinsurers' creditworthiness is conducted based on market data, information obtained from external sources, such as Standard&Poor's and also based on an internal model. The model divides reinsurers into several classes, depending on the estimated risk level. A reinsurer will not be accepted if its risk is higher than a pre-defined cut-off point. The acceptance is not automatic and the analysis is supplemented by assessments by reinsurance brokers. In the credit risk monitoring process, this assessment is updated on a quarterly basis.

The following tables present the credit risk of the reinsurers that cooperated with PZU Group companies.

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2017	Standard&Poor's rating as at 31 December 2017
Reinsurer 1	139	unrated
Reinsurer 2	131	A+
Reinsurer 3	76	AA-
Reinsurer 4	58	AA-
Reinsurer 5	58	unrated
Reinsurer 6	50	AA-
Reinsurer 7	48	A-
Reinsurer 8	36	AA-
Reinsurer 9	30	A+
Reinsurer 10	29	A+
Others, including: [1]	595	
With investment-grade rating	555	BBB- or better
With sub-investment grade rating or unrated	40	BB+ or worse or unrated
Total	**1,250**	

[1] "Others" includes reinsurers' shares in technical provisions if their carrying amounts are lower than those presented above. A.M. Best ratings were used if Standard&Poor's rating was missing

(in millions of PLN)

Reinsurer	Reinsurers' share in technical provisions (net) as at 31 December 2016	Standard&Poor's rating as at 31 December 2016
Reinsurer 1	69	AA-
Reinsurer 2	65	AA-
Reinsurer 3	56	A+
Reinsurer 4	55	A+
Reinsurer 5	53	unrated
Reinsurer 6	39	AA-
Reinsurer 7	38	AA-
Reinsurer 8	37	AA-
Reinsurer 9	30	AA-
Reinsurer 10	25	A+
Others, including: [1]	523	
With investment-grade rating	445	BBB- or better
With sub-investment grade rating or unrated	78	BB+ or worse or unrated
Total	**990**	

[1] "Others" includes reinsurers' shares in technical provisions if their carrying amounts are lower than those presented above.

Counterparty risk related to reinsurance is mitigated by the fact that the PZU Group cooperates with numerous reinsurers with reliable credit ratings.

7.5.2. Actuarial risk (non-life and life insurance)

Actuarial risk is the possibility of loss or of adverse change in the value of liabilities under the executed insurance agreements and insurance guarantee agreements, due to inadequate premium pricing and technical provisioning assumptions.

Actuarial risk includes:

	Non-life insurance	Life insurance
Longevity risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.	X	X
Expense risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.	X	X
Lapse risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.	X	X
Catastrophe risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from the significant uncertainty of pricing and technical provisioning assumptions related to extreme or irregular events.	X	X
Premium risk – risk of inadequate estimation of tariff rates and possible deviations of written premiums from the expected level, resulting from fluctuations in the timing, frequency and severity of insured events.	X	N/A
Provisioning risk – risk of inadequate estimation of technical provisioning levels and the possibility of fluctuations of actual losses around their statistical average because of the stochastic nature of future claims payments.	X	N/A
Revision risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or health of the person insured.	X	N/A
Mortality risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.	N/A	X
Morbidity (disability) risk – the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.	N/A	X

PZU Group manages its actuarial risk among others through:

- calculation and monitoring of adequacy of technical provisions;
- tariff strategy, monitoring of the current estimates and evaluation of premium adequacy;
- *underwriting;*
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU Group manages its technical provisioning adequacy risk by using appropriate calculation methodology and by controlling provision calculation processes. The provisioning policy is based on:

- prudent approach to the calculation of technical provisions;
- continuity principle, which entails making no changes in the technical provisioning methodology if no significant circumstances occur to justify such changes.

For non-life insurance, the level of technical provisions is evaluated once a month and in specific circumstances (when a payment is made or new information obtained from adjusters or lawyers) their amount is updated. The historical developments and payments of technical provisions over the years are used in the current analyses of technical provisions. This analysis provides an assessment of precision of the current actuarial methods.

For life insurance products, the main sources of data used to estimate the expected frequency of claims include public statistical data (life expectancy tables) published by specialized statistical institutions and analysis of historical insurance portfolio data. Periodic statistical analysis of claim incidence are made at the level of product groups, individual insurance portfolios and properly defined homogeneous risk groups. These analyses form the basis for measuring relative incidence of events compared to publicly available statistical data. The use of appropriate statistical methodologies allows the Group to determine the significance of the statistics and where required – define and apply appropriate safety margins in the determination of technical provisions and risk measurement.

Estimation of technical provisions in the PZU Group is supervised by chief actuaries.

Tariff strategy, monitoring of current estimates and evaluation of premium adequacy

The objective of the tariff policy is to guarantee adequate level of premium (sufficient to cover current and future liabilities under in-force policies and expenditures). Along with developing a premium tariff, simulations are conducted with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio profitability studies are carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given financial year. The frequency of analyses is adjusted to the materiality of the product and possible fluctuations of its result. If the insurance history is unfavorable then measures are taken to restore the specified profitability level, which involves adjustments to premium tariffs or to the insured risk profile, through amendments to general terms of insurance.

Underwriting

For corporate and SME customers, the underwriting process is separate from the sales function. The insurance sales process to corporate customers is preceded by analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process consists of a risk acceptance system based on the assigned decision-making powers and limits.

(in millions of PLN)

Reinsurance

The purpose of the PZU Group's reinsurance program in non-life insurance is to secure its core business by mitigating the risk of catastrophic events that may adversely affect the its financial position. This task is performed through obligatory reinsurance contracts supplemented by facultative reinsurance.

PZU Group limits its risk among others by way of:

- non-proportional excess of loss treaties, which protect the portfolios against catastrophic losses (e.g. flood, cyclone);
- non-proportional excess of loss treaties, which protect property, technical, marine, aviation, TPL (including motor TPL) portfolios against the effects of large single losses;
- a proportional treaty, which protects the financial insurance portfolio.

Optimization of the reinsurance program in terms of protection against catastrophic claims is based on the results of internal analyses and uses third-party models.

7.5.2.1. Exposure to actuarial risk – non-life and life insurance

Key cost ratios in non-life insurance	1 January – 31 December 2017	1 January – 31 December 2016
Expense ratio	25.91%	28.70%
Net loss ratio	63.51%	65.66%
Reinsurer's retention ratio	4.29%	3.53%
Combined ratio	89.42%	94.36%

The expense ratio is the ratio of total acquisition expenses, administrative expenses, reinsurance commissions and profit participation, to the net earned premiums.

The net loss ratio is the ratio of claims and the net movement in technical provisions, to the net earned premiums.

The reinsurer's retention ratio is the ratio of the reinsurer's share in gross written premiums, to the gross written premiums.

The combined ratio is the ratio of the sum of acquisition expenses, administrative expenses, reinsurance commissions and profit participation, claims and net movement in technical provisions to the net earned premiums.

(in millions of PLN)

The following tables present the development of technical provisions and payments in successive reporting years.

Claims development in direct non-life insurance, gross (by reporting year)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Provision at the end of the reporting period	8,293	8,699	9,381	9,870	10,989	11,783	13,312	13,163	13,181	13,988
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
- calculated 1 year later	8,382	8,561	9,681	10,298	11,286	12,241	13,032	12,908	13,353	
- calculated 2 years later	8,410	8,856	10,192	10,753	11,958	12,180	12,719	12,922		
- calculated 3 years later	8,758	9,346	10,719	11,590	11,973	12,080	12,822			
- calculated 4 years later	9,215	9,874	11,574	11,738	11,910	12,172				
- calculated 5 years later	9,724	10,712	11,735	11,702	12,067					
- calculated 6 years later	10,558	10,875	11,795	11,871						
- calculated 7 years later	10,747	10,971	12,017							
- calculated 8 years later	10,907	11,201								
- calculated 9 years later	11,152									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	11,152	11,201	12,017	11,871	12,067	12,172	12,822	12,922	13,353	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	6,470	6,195	6,633	6,050	5,735	5,247	4,952	4,006	2,759	
Provision recognized in the statement of financial position	4,682	5,006	5,384	5,821	6,332	6,925	7,870	8,916	10,594	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(2,859)	(2,502)	(2,636)	(2,001)	(1,078)	(389)	490	241	(172)	
The above difference as % of provision at the end of the first year	-34%	-29%	-28%	-20%	-10%	-3%	4%	2%	-1%	

(in millions of PLN)

Claims development in direct non-life insurance, net of reinsurance (by reporting year)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Provision at the end of the reporting period	7,433	7,973	8,639	9,305	10,413	11,453	12,814	12,653	12,559	12,880
Provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period):										
- calculated 1 year later	7,568	7,844	8,838	9,731	10,722	11,787	12,525	12,355	12,576	
- calculated 2 years later	7,598	8,092	9,345	10,185	11,282	11,704	12,201	12,278		
- calculated 3 years later	7,910	8,558	9,873	10,947	11,278	11,599	12,224			
- calculated 4 years later	8,344	9,106	10,672	11,071	11,215	11,642				
- calculated 5 years later	8,875	9,892	10,818	11,047	11,326					
- calculated 6 years later	9,657	10,037	10,884	11,167						
- calculated 7 years later	9,827	10,145	11,032							
- calculated 8 years later	10,000	10,311								
- calculated 9 years later	10,180									
Sum total of the provision and total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	10,180	10,311	11,032	11,167	11,326	11,642	12,224	12,278	12,576	
Total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	5,683	5,492	5,855	5,554	5,280	5,047	4,766	3,829	2,602	
Provision recognized in the statement of financial position	4,497	4,819	5,177	5,613	6,046	6,595	7,458	8,449	9,974	
Difference between the provision at the end of the first year and the provision estimated at the end of the reporting period *(run-off result)*	(2,747)	(2,338)	(2,393)	(1,862)	(913)	(189)	590	375	(17)	
The above difference as % of provision at the end of the first year	-37%	-29%	-28%	-20%	-9%	-2%	5%	3%	0%	

(in millions of PLN)

Motor insurance – motor own damage (autocasco) and motor TPL – is the core component of the PZU Group's portfolio. Both types of insurance are generally concluded for one year, in which the loss must occur for the claim to be paid out. In the case of motor own damage, the time for reporting a loss is short and it is not the source of uncertainty. Motor TPL is a whole different situation – the period for reporting losses may be up to 30 years. The level of property losses is sensitive especially to the number of litigation claims reported and court rulings awarded in respective cases. In the case of TPL insurance contracts, new types of long-tail losses arise, which makes the process of estimating technical provisions much more complicated.

Risk concentration in non-life insurance

Due to the climate conditions of the region where PZU Group operates, concentration risk may occur in the case of catastrophic losses, such as floods or cyclones. Accordingly, the PZU Group's exposure to such losses is presented broken down by voivodeships (for operations conducted in Poland) and countries (for foreign operations).

Risk concentration in non-life insurance – exposure to flood and cyclone losses as at 31 December 2017		**Sum insured**						**Total**
		0-0,2 m PLN	**0.2 - 0.5 m PLN**	**0.5 -2 m PLN**	**2 - 10 m PLN**	**10 - 50 m PLN**	**over 50 m PLN**	
Dolnośląskie	Sum insured	1.1%	1.5%	1.2%	1.0%	0.7%	2.8%	**8.3%**
	Number of policies	6.8%	1.6%	0.5%	0.1%	0.0%	0.1%	**9.1%**
Kujawsko-Pomorskie	Sum insured	0.6%	0.7%	0.5%	0.4%	0.4%	1.2%	**3.8%**
	Number of policies	4.0%	0.8%	0.2%	0.0%	0.0%	0.0%	**5.0%**
Lubelskie	Sum insured	0.7%	0.6%	0.3%	0.2%	0.2%	2.1%	**4.1%**
	Number of policies	3.5%	0.7%	0.1%	0.0%	0.0%	0.0%	**4.3%**
Lubuskie	Sum insured	0.3%	0.3%	0.2%	0.2%	0.2%	0.3%	**1.5%**
	Number of policies	1.3%	0.3%	0.1%	0.0%	0.0%	0.0%	**1.7%**
Łódzkie	Sum insured	0.8%	1.1%	0.8%	0.4%	0.4%	5.6%	**9.1%**
	Number of policies	5.0%	1.2%	0.3%	0.0%	0.0%	0.0%	**6.5%**
Małopolskie	Sum insured	0.9%	1.6%	0.8%	0.5%	0.5%	1.6%	**5.9%**
	Number of policies	5.0%	1.7%	0.4%	0.0%	0.0%	0.0%	**7.1%**
Mazowieckie	Sum insured	1.7%	2.8%	2.1%	1.0%	1.4%	8.8%	**17.8%**
	Number of policies	11.0%	3.2%	1.0%	0.1%	0.0%	0.1%	**15.4%**
Opolskie	Sum insured	0.3%	0.4%	0.3%	0.2%	0.1%	0.9%	**2.2%**
	Number of policies	1.6%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.1%**
Podkarpackie	Sum insured	0.7%	0.8%	0.3%	0.2%	0.2%	0.5%	**2.7%**
	Number of policies	3.5%	1.0%	0.1%	0.0%	0.0%	0.0%	**4.6%**
Podlaskie	Sum insured	0.4%	0.5%	0.3%	0.2%	0.2%	0.3%	**1.9%**
	Number of policies	1.9%	0.5%	0.1%	0.0%	0.0%	0.0%	**2.5%**
Pomorskie	Sum insured	0.7%	1.0%	0.8%	0.5%	0.7%	3.5%	**7.2%**
	Number of policies	4.2%	1.0%	0.3%	0.0%	0.0%	0.0%	**5.5%**
Śląskie	Sum insured	1.2%	1.5%	0.9%	0.6%	0.4%	1.9%	**6.5%**
	Number of policies	7.8%	1.6%	0.4%	0.0%	0.0%	0.1%	**9.9%**
Świętokrzyskie	Sum insured	0.4%	0.5%	0.2%	0.1%	0.1%	0.6%	**1.9%**
	Number of policies	2.2%	0.6%	0.1%	0.0%	0.0%	0.0%	**2.9%**
Warmińsko-Mazurskie	Sum insured	0.4%	0.4%	0.3%	0.3%	0.2%	0.5%	**2.1%**
	Number of policies	2.0%	0.5%	0.1%	0.0%	0.0%	0.0%	**2.6%**
Wielkopolskie	Sum insured	1.2%	1.7%	1.3%	0.7%	0.6%	2.1%	**7.6%**
	Number of policies	7.5%	1.9%	0.5%	0.1%	0.0%	0.1%	**10.1%**
Zachodniopomorskie	Sum insured	0.4%	0.4%	0.4%	0.5%	0.5%	3.5%	**5.7%**
	Number of policies	2.1%	0.5%	0.2%	0.0%	0.0%	0.0%	**2.8%**
Lithuania and Estonia	Sum insured	0.7%	1.7%	2.6%	1.0%	0.6%	0.8%	**7.4%**
	Number of policies	2.3%	1.9%	1.0%	0.1%	0.0%	0.0%	**5.3%**
Latvia	Sum insured	0.2%	0.7%	0.7%	0.5%	0.6%	0.9%	**3.6%**
	Number of policies	1.1%	0.8%	0.3%	0.0%	0.0%	0.0%	**2.2%**
Ukraine	Sum insured	0.1%	0.0%	0.1%	0.2%	0.2%	0.1%	**0.7%**
	Number of policies	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.4%**

(in millions of PLN)

Risk concentration in non-life insurance – exposure to flood and cyclone losses as at 31 December 2017		Sum insured						Total
		0-0,2 m PLN	0.2 - 0.5 m PLN	0.5 -2 m PLN	2 - 10 m PLN	10 - 50 m PLN	over 50 m PLN	
Total	**Sum insured**	**12.8%**	**18.2%**	**14.1%**	**8.7%**	**8.2%**	**38.0%**	**100.0%**
	Number of policies	**73.2%**	**20.2%**	**5.8%**	**0.4%**	**0.0%**	**0.4%**	**100.0%**

Risk concentration in non-life insurance – exposure to flood and cyclone losses as at 31 December 2016		Sum insured						Total
		0-0,2 m PLN	0.2 - 0.5 m PLN	0.5 -2 m PLN	2 - 10 m PLN	10 - 50 m PLN	over 50 m PLN	
Dolnośląskie	Sum insured	1.1%	1.6%	1.2%	1.9%	1.2%	2.1%	**9.1%**
	Number of policies	6.6%	1.4%	0.4%	0.1%	0.0%	0.0%	**8.5%**
Kujawsko-Pomorskie	Sum insured	0.7%	0.9%	0.6%	0.4%	0.5%	1.2%	**4.3%**
	Number of policies	4.5%	0.8%	0.2%	0.0%	0.0%	0.0%	**5.5%**
Lubelskie	Sum insured	0.8%	0.7%	0.3%	0.2%	0.2%	1.2%	**3.4%**
	Number of policies	4.2%	0.7%	0.1%	0.0%	0.0%	0.0%	**5.0%**
Lubuskie	Sum insured	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	**1.9%**
	Number of policies	1.8%	0.3%	0.1%	0.0%	0.0%	0.0%	**2.2%**
Łódzkie	Sum insured	0.7%	1.2%	0.7%	0.3%	0.4%	2.9%	**6.2%**
	Number of policies	4.7%	1.0%	0.3%	0.0%	0.0%	0.0%	**6.0%**
Małopolskie	Sum insured	0.9%	1.9%	0.8%	0.5%	0.5%	1.4%	**6.0%**
	Number of policies	5.2%	1.7%	0.3%	0.0%	0.0%	0.0%	**7.2%**
Mazowieckie	Sum insured	1.9%	4.0%	2.6%	1.1%	1.5%	8.6%	**19.7%**
	Number of policies	12.0%	3.3%	0.9%	0.1%	0.0%	0.0%	**16.3%**
Opolskie	Sum insured	0.3%	0.6%	0.4%	0.3%	0.3%	0.7%	**2.6%**
	Number of policies	2.0%	0.5%	0.1%	0.0%	0.0%	0.0%	**2.6%**
Podkarpackie	Sum insured	0.8%	1.0%	0.3%	0.3%	0.3%	0.4%	**3.1%**
	Number of policies	4.0%	0.9%	0.1%	0.0%	0.0%	0.0%	**5.0%**
Podlaskie	Sum insured	0.4%	0.5%	0.4%	0.2%	0.2%	0.1%	**1.8%**
	Number of policies	2.2%	0.5%	0.1%	0.0%	0.0%	0.0%	**2.8%**
Pomorskie	Sum insured	0.7%	1.2%	0.9%	0.6%	0.9%	1.9%	**6.2%**
	Number of policies	4.7%	1.1%	0.3%	0.0%	0.0%	0.0%	**6.1%**
Śląskie	Sum insured	1.1%	1.7%	0.9%	0.5%	0.5%	1.5%	**6.2%**
	Number of policies	6.8%	1.5%	0.3%	0.0%	0.0%	0.0%	**8.6%**
Świętokrzyskie	Sum insured	0.4%	0.5%	0.1%	0.1%	0.1%	0.1%	**1.3%**
	Number of policies	1.8%	0.4%	0.0%	0.0%	0.0%	0.0%	**2.2%**
Warmińsko-Mazurskie	Sum insured	0.4%	0.5%	0.4%	0.3%	0.2%	0.6%	**2.4%**
	Number of policies	2.3%	0.5%	0.1%	0.0%	0.0%	0.0%	**2.9%**
Wielkopolskie	Sum insured	1.1%	1.9%	1.4%	0.8%	0.6%	1.5%	**7.3%**
	Number of policies	7.2%	1.7%	0.5%	0.1%	0.0%	0.0%	**9.5%**
Zachodniopomorskie	Sum insured	0.3%	0.4%	0.4%	0.5%	0.6%	1.7%	**3.9%**
	Number of policies	2.5%	0.4%	0.1%	0.0%	0.0%	0.0%	**3.0%**
Lithuania and Estonia	Sum insured	0.7%	1.6%	2.9%	1.5%	1.3%	2.0%	**10.0%**
	Number of policies	2.2%	1.4%	0.9%	0.1%	0.0%	0.0%	**4.6%**
Latvia	Sum insured	0.2%	0.8%	0.9%	0.6%	0.7%	1.4%	**4.6%**
	Number of policies	0.7%	0.7%	0.3%	0.0%	0.0%	0.0%	**1.7%**
Ukraine	Sum insured	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**
	Number of policies	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.3%**
Total	**Sum insured**	**12.8%**	**21.3%**	**15.5%**	**10.5%**	**10.3%**	**29.6%**	**100.0%**
	Number of policies	**75.7%**	**18.8%**	**5.1%**	**0.4%**	**0.0%**	**0.0%**	**100.0%**

(in millions of PLN)

Concentration of risk in non-life insurance – TPL insurance

Due to the considerable dispersion of the motor TPL insurance portfolio, the concentration risk in this insurance group is not significant from PZU Group's perspective.

The concentration of risk in non-life non-motor liability insurance, measured by the level of gross written premiums, is presented by guaranteed amounts and types of insurance cover.

Gross written premium in non-life insurance – liability insurance as at 31 December 2017	Sum insured					Total
	0-0,2 m PLN	0,2-0,5 m PLN	0,5-1 m PLN	1-2 m PLN	over 2 m PLN	
General, private and other liability	16.8%	4.6%	2.1%	2.4%	16.0%	**41.9%**
Professional liability for medical personnel and health care business	1.3%	1.7%	1.0%	4.6%	18.6%	**27.2%**
Professional liability other than medical and farmer's (legal, consulting and other)	10.3%	4.0%	1.9%	1.9%	8.0%	**26.1%**
Farmers' liability and farmers' movable asset TPL	0.0%	0.0%	0.0%	4.7%	0.0%	**4.7%**
Product liability	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**28.4%**	**10.3%**	**5.0%**	**13.6%**	**42.7%**	**100.0%**

Gross written premium in non-life insurance – liability insurance as at 31 December 2016	Sum insured					Total
	0-0,2 m PLN	0,2-0,5 m PLN	0,5-1 m PLN	1-2 m PLN	over 2 m PLN	
General, private and other liability	20.0%	3.3%	2.3%	2.8%	15.1%	**43.5%**
Professional liability for medical personnel and health care business	0.6%	1.1%	1.1%	6.0%	21.1%	**29.9%**
Professional liability other than medical and farmer's (legal, consulting and other)	8.6%	4.1%	2.0%	2.4%	4.6%	**21.7%**
Farmers' liability and farmers' movable asset TPL	0.0%	0.0%	0.0%	4.8%	0.0%	**4.8%**
Product liability	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**29.2%**	**8.5%**	**5.4%**	**16.0%**	**40.9%**	**100.0%**

Capitalized annuities

The following results do not take into account the impact of changes in valuation of investments included in provision calculations.

Impact of the change in assumptions regarding the gross provision for the capitalized value of annuities in non-life insurance on the net financial result and equity	31 December 2017	31 December 2016
Technical rate - increase by 0.5 p.p.	424	414
Technical rate - decrease by 1.0 p.p.	(1,094)	(1,071)
Mortality at 110% of currently assumed rate	131	128
Mortality at 90% of currently assumed rate	(146)	(143)

Change in assumptions regarding the net provision for the capitalized value of annuities in non-life insurance on the net financial result and equity	31 December 2017	31 December 2016
Technical rate - increase by 0.5 p.p.	407	398
Technical rate - decrease by 1.0 p.p.	(1,051)	(1,030)
Mortality at 110% of currently assumed rate	127	124
Mortality at 90% of currently assumed rate	(141)	(138)

(in millions of PLN)

7.5.2.2. Exposure to insurance risk – life insurance

The PZU Group has not disclosed information on the development of claims in life insurance, since uncertainty about the amount and timing of claims payments is typically resolved within one year.

Risk concentration is associated with the concentration of insurance contracts or sums insured. For traditional individual insurance products, where concentration risk is related to the possibility that an insurable event occurs or is related to the potential level of payouts arising from a single event, the risk is assessed on a case-by-case basis. The assessment includes medical risk and – in justified cases – also financial risk. Consequently, risk selection occurs (a person concluding an insurance agreement is evaluated) and the maximum acceptable risk level is defined.

In group insurance, concentration risk is mitigated by the sheer size of the contract portfolio. This significantly reduces the level of disturbances caused by the random nature of insurance history. Additionally, the collective form of a contract, under which all the persons insured have the same sum insured and coverage is an important risk-mitigating factor. Therefore, some risks within the contract portfolio are not concentrated.

In the case of group insurance contracts in which insurance cover may be adjusted at the level of individual group contracts, a simplified underwriting process is used. It is based on information about the industry in which the work establishment operates, assuming appropriate ratios of the insureds to employees in the work establishment. The insurance premiums used in such cases and appropriate mark-ups result from statistical analyses conducted by PZU Life on incidence of claims at the level of defined homogeneous risk groups, including relative frequency of events compared to public statistical data.

It should be noted that for most contracts, the claim amount is strictly defined in the insurance contract. Therefore, compared to typical non-life insurance contract, concentration risk is reduced, since single events with high claims payments are relatively rare.

Annuity products in life insurance

Changes in assumptions regarding provisions in annuity products in life insurance	Impact of changes in assumptions on net financial result and equity	
	31 December 2017	31 December 2016
Technical rate - decrease by 1.0 p.p.	(27)	(29)
Mortality at 90% of currently assumed rate	(11)	(11)

Life insurance products excluding annuity products

Change in assumptions regarding provisions in life insurance excluding provisions in annuity products	Impact of changes in assumptions on net financial result and equity	
	31 December 2017	31 December 2016
Technical rate - decrease by 1.0 p.p.	(2,092)	(2,112)
Mortality at 110% of currently assumed rate	(881)	(891)
Morbidity and accident rate at 110% of currently assumed rate	(148)	(153)

(in millions of PLN)

Effects of lapses in life insurance

Calculation of mathematical technical provisions for life insurance does not include the risk of lapses (resignations). The effects of hypothetical lapses 10% of all life insurance customers are presented below.

Item in financial statements	31 December 2017	31 December 2016
Movement in technical provisions	2,167	2,098
Claims and benefits paid	(843)	(791)
Movement in deferred acquisition costs	(8)	(7)
Profit/loss before tax	1,316	1,299
Net profit/loss	1,066	1,052
Equity	1,066	1,052

7.5.3. Market risk

Market risk means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, credit spread, value of liabilities and financial instruments.

Market risk types in the PZU Group include:

- equity risk is the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of equities;
- unquoted equity risk is the possibility of incurring loss as a result of changes in the valuation of unquoted shares;
- property risk is the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of real estate;
- commodity risk is the possibility of incurring loss as a result of changes in the values of assets, liabilities and financial instruments caused by changes in the level or in the volatility of market prices of commodities;
- inflation risk is the possibility of incurring loss associated with the level of information, especially inflation of prices of goods and services as well as expectations as to the future inflation level, which affect the valuation of assets and liabilities;
- liquidity risk means the risk of being unable to realize investments and other assets without affecting their market prices in order to settle financial obligations when they fall due;
- interest rate risk is the possibility of incurring a loss as a result of changes in the value of financial instruments or other assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of market rates or in the volatility of risk-free market interest rates;
- basis risk is the possibility of incurring a loss as a result of changes in the value of financial instruments or assets and a change in the present value of projected cash flows from liabilities, caused by changes in the term structure of spreads between market interest rates and risk-free rates or in the volatility of such spreads, excluding credit spreads;
- foreign exchange risk is the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of currency exchange rates;
- credit spread risk is the possibility of incurring loss as a result of changes in the value of assets, liabilities and financial instruments, caused by changes in the level or in the volatility of credit spreads over the term structure of the interest rates on debt securities issued by the State Treasury;
- concentration risk is the possibility of incurring loss stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

Concentration risk and credit spread risk are regarded as an integral part of market risk when measuring risk for the purposes of risk profile, risk tolerance, and market risk ratio reporting. The process of managing the risks has however a different set of traits from the process of managing the other sub-categories of market risk and has been described in section 7.5.1.1 along with the process for managing counterparty insolvency risk.

(in millions of PLN)

The market risk in the PZU Group originates from three major sources:

- operations associated with asset and liability matching (ALM portfolio);
- operations associated with active allocation, i.e. designating the optimum medium-term asset structure (AA portfolios);
- banking operations in Pekao Alior Bank – in conjunction with them the PZU Group has materially increased its exposure to interest rate risk.

A number of documents approved by supervisory boards, management boards and dedicated committees govern investment activity in the PZU Group's companies.

Risk units take part in the risk identification process, measure, monitor and report on the risks. Market risk is measured using the value at risk method (VaR). The total market risk value is calculated by aggregating the amounts of individual risks based on a pre-defined correlation matrix. In order to effectively manage market risk, risk limits are adopted in a form of a capital amount allocated to each market risk and limits for individual market risks.

In Pekao, the market risk management system forms the structural, organizational and methodological framework, which aims to maintain the balance sheet and off-balance sheet structure in line with the accepted strategic objectives. The market risk management process and the governing procedures include the separation into the banking and trading books.

In managing its trading book's market risk, Pekao strives to optimize the financial performance and ensure the highest possible quality of service of the bank's clients in respect to market-making, while remaining within the limits approved by the management board and the supervisory board.

When managing interest rate risk in its banking book, Pekao endeavors to secure the economic value of equity and to achieve its intended net interest income target within the accepted limits.

In Alior Bank, the exposure to market and liquidity risk is restricted by the system of periodically updated limits introduced by the resolution of the supervisory board or the management board that include all risk measures. In Alior Bank, there are three types of limits that differ in respect to their functioning - basic, supplementary and stress-test limits. Market risk management focuses on potential changes in economic result.

Exposure to market risk

Carrying amount as at 31 December 2017	Note	Assets at Group's risk		Assets at client's risk	Total
			including banks' assets		
Financial assets and cash exposed to interest rate risk		**280,829**	**243,736**	**1,384**	**282,213**
Fixed-income debt securities	33.2, 33.3, 33.4, 33.6	66,973	39,278	1,270	68,243
Variable-income debt securities	33.2, 33.3, 33.4, 33.6	28,128	25,449	23	28,151
Loan receivables from clients	33.6	169,457	169,457	-	169,457
Term deposits with credit institutions	33.6	1,751	851	90	1,841
Loans	33.6	3,698	-	-	3,698
Cash	35	8,238	6,620	1	8,239
Buy-sell-back transactions	33.6	885	553	-	885
Derivatives	33.4, 33.5	1,699	1,528	-	1,699
Financial assets exposed to other price risk		**3,377**	**898**	**4,503**	**7,880**
Equity instruments	33.3, 33.4	2,725	363	4,503	7,228
Derivatives	33.4, 33.5	652	535	-	652
Total		**284,206**	**244,634**	**5,887**	**290,093**

(in millions of PLN)

Carrying amount as at 31 December 2016	Note	Assets at Group's risk		Assets at client's risk	Total
			including banks' assets		
Financial assets and cash exposed to interest rate risk		**99,094**	**57,877**	**1,463**	**100,557**
Fixed-income debt securities	33.2, 33.3, 33.4, 33.6	35,688	6,977	1,140	36,828
Variable-income debt securities	33.2, 33.3, 33.4, 33.6	8,078	2,645	105	8,183
Loan receivables from clients	33.6	44,998	44,998	-	44,998
Term deposits with credit institutions	33.6	2,068	583	217	2,285
Loans	33.6	1,708	-	-	1,708
Cash	35	2,972	1,126	1	2,973
Buy-sell-back transactions	33.6	2,880	1,264	-	2,880
Derivatives	33.4, 33.5	702	284	-	702
Financial assets exposed to other price risk		**3,929**	**243**	**3,773**	**7,702**
Equity instruments	33.3, 33.4	3,678	43	3,773	7,451
Derivatives	33.4, 33.5	251	200	-	251
Total		**103,023**	**58,120**	**5,236**	**108,259**

The following table presents financial assets of banks and at client's risk, by classification into their respective portfolios:

Financial assets of banks and financial assets at client's risk	31 December 2017		31 December 2016	
	Pekao and Alior Bank	Financial assets at client's risk	Alior Bank	Financial assets at client's risk
Financial instruments held to maturity	**4,839**	**-**	**220**	**-**
Debt securities	4,839	-	220	-
Government securities	4,808	-	220	-
Domestic	4,808	-	220	-
Fixed rate	3,839	-	220	-
Floating rate	969	-	-	-
Other	31	-	-	-
Not quoted on a regulated market	31	-	-	-
Fixed rate	31	-	-	-
Financial instruments available for sale	**45,772**	**-**	**9,438**	**-**
Equity instruments	358	-	36	-
Quoted on a regulated market	117	-	-	-
Not quoted on a regulated market	241	-	36	-
Debt instruments	45,414	-	9,402	-
Government securities	31,484	-	6,438	-
Domestic	30,762	-	6,438	-
Fixed rate	19,060	-	4,146	-
Floating rate	11,702	-	2,292	-
Foreign	722	-	-	-
Fixed rate	722	-	-	-
Other	13,930	-	2,964	-
Quoted on a regulated market	652	-	-	-
Fixed rate	652	-	-	-
Not quoted on a regulated market	13,278	-	2,964	-
Fixed rate	13,077	-	2,611	-
Floating rate	201	-	353	-

(in millions of PLN)

Financial assets of banks and financial assets at client's risk	31 December 2017		31 December 2016	
	Pekao and Alior Bank	Financial assets at client's risk	Alior Bank	Financial assets at client's risk
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	**-**	**68**	**-**	**61**
Equity instruments	-	65	-	56
Quoted on a regulated market	-	61	-	53
Not quoted on a regulated market	-	4	-	3
Debt instruments	-	3	-	5
Government securities	-	3	-	5
Foreign	-	3	-	5
Fixed rate	-	3	-	5
Financial instruments measured at fair value through profit or loss – held for trading	**3,533**	**5,728**	**419**	**4,957**
Equity instruments	5	4,438	7	3,717
Quoted on a regulated market	5	383	6	398
Not quoted on a regulated market	-	4,055	1	3,319
Debt instruments	1,812	1,290	-	1,240
Government securities	1,732	1,267	-	1,167
Domestic	1,732	1,267	-	1,167
Fixed rate	435	1,267	-	1,135
Floating rate	1,297	-	-	32
Other	80	23	-	73
Not quoted on a regulated market	80	23	-	73
Floating rate	80	23	-	73
Derivatives	1,716	-	412	-
Loans	**183,523**	**90**	**46,845**	**217**
Debt securities	12,662	-	-	-
Other	12,662	-	-	-
Quoted on a regulated market	977	-	-	-
Fixed rate	281	-	-	-
Floating rate	696	-	-	-
Not quoted on a regulated market	11,685	-	-	-
Fixed rate	1,181	-	-	-
Floating rate	10,504	-	-	-
Loan receivables from clients	169,457	-	44,998	-
Buy-sell-back transactions	553	-	1,264	-
Term deposits with credit institutions	851	90	583	217
Hedge derivatives	**347**	**-**	**72**	**-**
Cash	**6,620**	**1**	**1,126**	**1**
Total financial assets of banks and financial assets at client's risk	**244,634**	**5,887**	**58,120**	**5,236**

In its investing activities, the PZU Group uses derivatives as a tool to mitigate risk (with or without hedge accounting) and to facilitate efficient management of the investment portfolio.

(in millions of PLN)

The following tables present the PZU Group's exposure to derivatives.

Interest rate derivatives	Base amount by maturities as at 31 December 2017					Assets as at 31 December 2017	Liabilities as at 31 December 2017
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments designated as fair value hedges – unquoted instruments, including:	115	-	1,744	1,696	3,555	16	186
- SWAP transactions	115	-	1,744	1,696	3,555	16	186
Instruments designated as cash flow hedges – unquoted instruments, including:	2,950	1,653	12,849	2,181	19,633	289	682
- SWAP transactions	2,950	1,653	12,849	2,181	19,633	289	682
Instruments carried as held for trading, including:	17,396	31,415	101,625	22,573	173,009	1,394	1,929
Unquoted instruments, including:	17,396	31,415	101,625	22,573	173,009	1,394	1,929
- FRA transactions	1,285	450	-	-	1,735	1	-
- SWAP transactions	14,932	27,813	96,648	22,468	161,861	1,381	1,921
- call options (purchase)	411	1,363	3,854	11	5,639	10	2
- put options (sale)	768	1,789	1,123	94	3,774	2	6
Total interest rate derivatives	**20,461**	**33,068**	**116,218**	**26,450**	**196,197**	**1,699**	**2,797**

Interest rate derivatives	Base amount by maturities as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments designated as cash flow hedges – unquoted instruments, including:	1,100	2,225	3,394	250	6,969	72	6
- SWAP transactions	1,100	2,225	3,394	250	6,969	72	6
Instruments carried as held for trading, including:	5,561	22,338	32,739	9,137	69,775	630	633
Instruments quoted on a regulated market, including:	1,355	-	361	-	1,716	7	19
- forward contracts	1,355	-	361	-	1,716	7	19
Unquoted instruments, including:	4,206	22,338	32,378	9,137	68,059	623	614
- SWAP transactions	3,475	21,277	30,796	9,028	64,576	597	586
- call options (purchase)	-	43	539	-	582	4	-
- put options (sale)	132	933	1,007	109	2,181	-	6
- other	599	85	36	-	720	22	22
Total interest rate derivatives	**6,661**	**24,563**	**36,133**	**9,387**	**76,744**	**702**	**639**

(in millions of PLN)

Foreign exchange derivatives	Base amount by maturities as at 31 December 2017					Assets as at 31 December 2017	Liabilities as at 31 December 2017
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments designated as cash flow hedges – unquoted instruments, including:	480	501	-	-	981	42	-
- SWAP transactions	480	501	-	-	981	42	-
Instruments carried as held for trading, including:	36,955	10,954	2,060	42	50,011	402	517
Instruments quoted on a regulated market, including:	456	-	-	-	456	19	1
- forward contracts	456	-	-	-	456	19	1
Unquoted instruments, including:	36,499	10,954	2,060	42	49,555	383	516
- forward contracts	11,684	4,300	945	-	16,929	175	221
- SWAP transactions	22,650	2,851	462	42	26,005	164	256
- call options (purchase)	1,005	1,323	71	-	2,399	27	8
- put options (sale)	1,160	2,480	582	-	4,222	17	31
Total foreign exchange derivatives	**37,435**	**11,455**	**2,060**	**42**	**50,992**	**444**	**517**

Foreign exchange derivatives	Base amount by maturities as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments quoted on a regulated market, including:	-	-	361	-	361	3	-
- forward contracts	-	-	361	-	361	3	-
Unquoted instruments, including:	11,428	3,091	1,300	76	15,895	199	125
- forward contracts	1,863	980	311	-	3,154	62	25
- SWAP transactions	8,608	1,006	867	76	10,557	115	77
- call options (purchase)	490	547	61	-	1,098	22	-
- put options (sale)	467	558	61	-	1,086	-	23
Total foreign exchange derivatives	**11,428**	**3,091**	**1,661**	**76**	**16,256**	**202**	**125**

Equity derivatives	Base amount by maturities as at 31 December 2017					Assets as at 31 December 2017	Liabilities as at 31 December 2017
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Unquoted instruments, including:	485	2,430	2,924	-	5,839	104	57
- call options (purchase)	279	1,245	1,666	-	3,190	102	10
- put options (sale)	206	1,185	1,258	-	2,649	2	47
Total equity derivatives	**485**	**2,430**	**2,924**	**-**	**5,839**	**104**	**57**

(in millions of PLN)

Equity derivatives	Base amount by maturities as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments quoted on a regulated market, including:	26	-	-	-	26	-	-
- put options (sale)	26	-	-	-	26	-	-
Unquoted instruments, including:	695	609	3,712	-	5,016	49	23
- call options (purchase)	351	370	2,083	-	2,804	48	1
- put options (sale)	344	239	1,629	-	2,212	1	22
Total equity derivatives	**721**	**609**	**3,712**	**-**	**5,042**	**49**	**23**

Commodity derivatives	Base amount by maturities as at 31 December 2017					Assets as at 31 December 2017	Liabilities as at 31 December 2017
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total		
Instruments quoted on a regulated market, including:	285	40	7	-	332	10	21
- forward contracts	285	40	7	-	332	10	21
Unquoted instruments, including:	542	678	976	-	2,196	94	82
- forward contracts	227	26	-	-	253	19	7
- SWAP transactions	252	233	190	-	675	59	59
- call options (purchase)	45	240	398	-	683	15	8
- put options (sale)	18	179	388	-	585	1	8
Total equity derivatives	**827**	**718**	**983**	**-**	**2,528**	**104**	**103**

As at 31 December 2016, the PZU Group held no commodity derivatives.

Risk concentration

	31 December 2017	31 December 2017 (% of financial assets)	31 December 2016	31 December 2016 (% of financial assets)
Exposure to treasury securities issued and guaranteed by the State Treasury of the Republic of Poland and in buy-sell-back transactions on those securities	65,126	22.5%	38,315	35.4%
PZU Group's exposure to shares quoted on the Warsaw Stock Exchange	2,327	0.8%	3,340	3.1%
Overall exposure to banking assets: bank deposits cash, debt securities issued by banks, shares of banks and derivative transactions concluded with banks	21,897	7.5%	10,814	10.0%
Exposure in financial assets denominated in Polish zloty	249,674	86.1%	92,815	85.7%

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

As at 31 December 2017

Country	Currency	Purchase price	Carrying amount	Measurement at fair value	Impairment loss
Argentina	ARS/USD	102	101	101	-
Azerbaijan	USD	10	10	10	-
Brazil	USD	106	105	105	-
Bulgaria	EUR	54	55	58	-
Chile	USD	21	20	20	-

(in millions of PLN)

Country	Currency	Purchase price	Carrying amount	Measurement at fair value	Impairment loss
Croatia	EUR/USD	101	98	99	-
Dominican Republic	USD	30	30	30	-
Philippines	USD	42	41	41	-
Spain	EUR	10	10	10	-
Indonesia	EUR/USD	198	199	199	-
Jamaica	USD	14	14	14	-
Kazakhstan	USD	26	26	26	-
Columbia	USD	114	110	110	-
Costa Rica	USD	11	11	11	-
Lithuania	EUR/USD	424	431	435	-
Latvia	EUR	62	64	65	-
Mexico	EUR/MXN/USD	94	88	88	-
Germany	EUR	461	449	449	-
Oman	USD	32	31	31	-
Pakistan	USD	10	10	10	-
Panama	USD	31	31	31	-
Peru	PEN/USD	83	84	84	-
Russia	USD	48	46	46	-
South Africa	USD/ZAR	134	133	133	-
Romania	EUR/RON/USD	109	106	108	-
Serbia	USD	10	10	10	-
Slovakia	EUR	22	20	20	-
Slovenia	EUR	45	48	48	-
Sri Lanka	USD	43	42	42	-
United States	USD	854	833	833	-
Turkey	EUR/USD	151	150	150	-
Ukraine	EUR/USD/UAH	771[)]	621[)]	621[)]	-
Uruguay	USD	27	27	27	-
Hungary	EUR/HUF/USD	205	195	196	-
Italy	EUR	19	18	18	-
Côte d'Ivoire	USD	10	10	10	-
Other	EUR/USD/GBP	63	60	61	-
Total		**3,853**	**3,778**	**3,791**	**-**

[1)] For some of the bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of the bonds). The purchase price reflects the actual price paid by the company and does not take into account the repayments of the par value.

As at 31 December 2016

Country	Currency	Purchase price	Carrying amount	Measurement at fair value	Impairment loss
Argentina	USD	70	80	80	-
Brazil	USD	69	79	79	-
Bulgaria	EUR	235	259	261	-
Croatia	EUR/USD	53	57	58	-
Cyprus	EUR	24	25	25	-
Czech Republic	CZK	337	345	345	-
Spain	EUR	40	39	39	-
Indonesia	EUR/USD	40	44	44	-
Lithuania	EUR/USD	459	485	491	-
Latvia	EUR/USD	91	110	110	-
Mexico	EUR/USD	33	33	33	-
Portugal	EUR	58	60	60	-
South Africa	EUR/ZAR	68	73	73	-
Romania	EUR/USD/RON	397	422	423	-

(in millions of PLN)

Country	Currency	Purchase price	Carrying amount	Measurement at fair value	Impairment loss
Slovakia	EUR	164	162	162	-
Slovenia	EUR	132	138	138	-
Sri Lanka	USD	42	45	45	-
United States	USD	148	149	149	-
Turkey	EUR/USD/TRY	324	345	345	-
Ukraine	EUR/USD/UAH	69 [1)]	68 [1)]	68 [1)]	-
Hungary	EUR/USD/HUF	399	423	424	-
other	EUR/USD/GBP	43	44	44	-
Total		**3,295**	**3,485**	**3,496**	**-**

[1)] For some of the bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of the bonds). The purchase price reflects the actual price paid by the company and does not take into account the repayments of the par value.

Exposure to debt securities issued by corporations and local government units

As at 31 December 2017

Issuer	Purchase price	Carrying amount	Measurement at fair value	Impairment loss
Companies from the WIG-Banks Index	558	563	564	-
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	1,877	1,886	1,902	6
Companies from the WIG-Fuels Index	663	666	668	2
Mining and quarrying (including companies included in the WIG-Mining index)	627	644	619	2
Manufacturing	1,111	1,159	1,197	4
Transportation and storage	1,898	1,904	1,911	7
Public utility services	615	611	611	2
Privately held domestic banks	20	20	21	-
Foreign banks	62	61	62	1
Domestic local governments	6,053	6,092	6,086	8
National Bank of Poland	13,097	13,097	13,097	-
Other	1,637	1,663	1,667	70
Total	**28,227**	**28,375**	**28,414**	**102**

(in millions of PLN)

As at 31 December 2016

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

7.5.3.1. Interest rate risk

The following table presents the sensitivity test of the portfolio of financial instruments for which the PZU Group bears the risk (except for loan receivables from clients and deposit liabilities).

Change in portfolio value caused by a +/- 100 bp shift in the yield curve, by currency of the instrument	31 December 2017		31 December 2016	
	decrease	increase	decrease	increase
Polish zloty	1,059	(1,004)	379	(363)
Euro	7	(4)	80	(73)
US dollar	144	(127)	30	(25)
other	34	(34)	53	(61)
Total	**1,244**	**(1,169)**	**542**	**(522)**

The above sensitivity tests do not include the effects of changes in interest rates for technical provisions and liabilities under investment contracts. The analysis of effect of a change in technical rate on measurement of insurance contracts is presented in section 7.5.2.

Interest rate risk in Pekao

The VaR model is the main tool for measuring interest rate risk of the trading book. This value reflects the level of ten-day loss that may be exceeded with a probability of no more than 1%. VaR is determined through historical simulation, based on a 2-year history of observation of the evolution of risks. The set of factors taken into account in the calculation of VaR includes all the relevant market factors that are taken into account in the valuation of financial instruments, except for the issuer’s and counterparty’s specific credit risk. The impact of changes in market factors on the current portfolio value is estimated using full revaluation (as a difference between the value of the portfolio after the change in market parameters, by the historically observed changes in those factors, and the present value of the portfolio). For such a set of probable changes in the portfolio's value (distribution function), VaR is determined as the 1% quantile.

The following table presents VaR for the interest rate risk in Pekao’s trading book.

	31 December 2017	for January-December 2017		
		Minimum	Medium	Maximum
Trading book – VaR interest rate risk (in thous. PLN)	2,501	1,568	3,203	6,087

(in millions of PLN)

When managing interest rate risk in its banking book, Pekao endeavors to secure the economic value of equity and to achieve its intended net interest income target within the accepted limits. The financial position in view of the changing interest rates is monitored by using interest rate gap (revaluation gap), duration analysis, sensitivity analysis, stress testing and VaR.

The table below presents the contractual level of sensitivity of net interest income (NII) to a 100 bp decline in interest rates and sensitivity of Pekao's economic value of equity (EVE) to a 200 bps decline in interest rates as at the end of December 2017. EVE is defined as the present value of future cash flows that will be generated by the entity's assets, less the present value of the future cash flows necessary to pay the entity's liabilities. Both analyses assume an immediate change in market rates. The interest rate on bank products changes according to the contractual provisions, whereas in the case of contractual NII, for deposits from retail customers, the declines in interest rates are limited to the zero interest rate level (that is, the interest on customer deposits will not drop beneath zero). In the case of EVE sensitivity for PLN-denominated current deposits, a model that ensures realistic revaluation is used.

Sensitivity in %	31 December 2017
NII	-8.14%
EVE	0.79%

Interest rate risk in Alior Bank

The interest rate risk related to Alior Bank's open positions is linked, first of all, to:

- revaluation date mismatch risk;
- basis risk, or the impact of non-parallel change in reference indexes with a similar revaluation date on the financial result;
- yield curve risk;
- client option risk.

One of the method of estimating exposure to interest rate risk is to calculate BPV, which provides information on the estimated change in the valuation of a transaction/item after a parallel shift in the yield curve by 1 basis point. The following tables present the BPV estimation for Alior Bank.

As at 31 December 2017 (thous. PLN)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5 to 10 years	Total
PLN	3	193	196	95	(90)	**397**
EUR	-	(8)	61	90	(5)	**138**
USD	1	8	(2)	-	(1)	**6**
CHF	(1)	-	(1)	-	-	**(2)**
GBP	(4)	2	-	-	-	**(2)**
Other	(1)	2	(1)	-	-	**-**
Total	**(2)**	**197**	**253**	**185**	**(96)**	**537**

(in millions of PLN)

As at 31 December 2016 (thous. PLN)

Currency	Up to 6 months	6 months to 1 year	1-3 years	3-5 years	5 to 10 years	Total
PLN	(19)	305	605	111	(433)	569
EUR	(16)	-	(28)	(44)	(35)	(123)
USD	13	11	(13)	-	(1)	10
CHF	(1)	-	(2)	-	-	(3)
GBP	-	3	-	-	-	3
Other	(2)	(5)	3	-	-	(4)
Total	**(25)**	**314**	**565**	**67**	**(469)**	**452**

For the interest rate risk management purposes, Alior Bank distinguishes trading activity involving securities and derivatives concluded for trading purposes and banking activity involving other securities, own issues, loans, deposits, credits and derivative transactions used to hedge the risk of the banking book. Alior Bank uses the Value at Risk (VaR) model to estimate the level of interest rate risk. The following table presents the economic capital to cover interest rate risk measured using this method at the end of 2017 and 2016 (99% VaR with a 10-day horizon).

Book	for January-December 2017			for January-December 2016		
	Minimum	Medium	Maximum	Minimum	Medium	Maximum
Banking book	6	18	31	3	11	33
Trading book	1	2	4	1	1	5
Total	**7**	**20**	**35**	**4**	**12**	**38**

Alior Bank conducts scenario analysis that includes, among others, the impact of changes in interest rates on the future net interest income and economic value of equity. Within these scenarios internal limits are maintained, whose utilization is measured daily. Utilization of the limit of change in economic value of capital after a parallel shift of the percentage curve by +/-200 bps and non-parallel shifts in the +/- 100/400 bps scenarios (for 1M/10Y tenors, the shift between them follows a linear interpolation) is presented in the following table:

(1M/10Y) scenario	Change in the economic value of equity	
	31 December 2017	31 December 2016
+400 / +100	2.80%	3.80%
+100 / -400	1.01%	0.50%
+200 / +200	1.52%	1.72%
- 200 / - 200	-1.26%	-1.77%
- 100 / - 400	-0.64%	-0.73%
- 400 / - 100	-1.40%	-1.75%

(in millions of PLN)

7.5.3.2. Foreign exchange risk

Exposure to FX risk

Assets by currency	31 December 2017								
	PLN	EUR	USD	CZK	GBP	HUF	RON	Other	Total
Assets held to maturity	20,724	464	13	-	-	-	-	36	21,237
Government securities	20,589	368	13	-	-	-	-	36	21,006
Other	135	96	-	-	-	-	-	-	231
Assets available for sale	43,731	3,058	1,725	-	3	-	-	2	48,519
Equity instruments	439	203	21	-	-	-	-	1	664
Debt securities	43,292	2,855	1,704	-	3	-	-	1	47,855
Government securities	29,113	2,828	1,704	-	3	-	-	1	33,649
Other	14,179	27	-	-	-	-	-	-	14,206
Assets measured at fair value – classified as such upon first recognition	5,967	324	252	-	22	17	7	61	6,650
Equity instruments	1,616	239	47	-	22	2	7	14	1,947
Debt securities	4,351	85	205	-	-	15	-	47	4,703
Government securities	4,326	75	201	-	-	15	-	47	4,664
Other	25	10	4	-	-	-	-	-	39
Assets held for trading	12,264	1,332	1,775	-	10	60	10	146	15,597
Equity instruments	4,288	185	133	-	-	11	-	-	4,617
Debt securities	6,616	797	1,475	-	-	17	10	61	8,976
Government securities	6,514	794	1,303	-	-	17	10	61	8,699
Other	102	3	172	-	-	-	-	-	277
Derivatives	1,360	350	167	-	10	32	-	85	2,004
Hedge derivatives	330	4	13	-	-	-	-	-	347

(in millions of PLN)

Assets by currency	31 December 2017								
	PLN	EUR	USD	CZK	GBP	HUF	RON	Other	Total
Loans	161,781	20,854	2,917	49	464	5	7	3,427	189,504
Debt securities	12,452	1,059	111	-	-	-	-	1	13,623
Government securities	-	-	-	-	-	-	-	1	1
Other	12,452	1,059	111	-	-	-	-	-	13,622
Other, including:	149,329	19,795	2,806	49	464	5	7	3,426	175,881
- loan receivables from clients	143,417	19,602	2,603	-	464	-	-	3,371 [1)]	169,457
- buy-sell-back transactions	885	-	-	-	-	-	-	-	885
- term deposits with credit institutions	1,606	58	61	49	-	5	7	55	1,841
- loans	3,421	135	142	-	-	-	-	-	3,698
Receivables	7,012	1,741	289	-	2	-	-	52	9,096
Cash and cash equivalents	4,877	1,959	492	289	193	18	8	403 [2)]	8,239
Total assets	**256,686**	**29,736**	**7,476**	**338**	**694**	**100**	**32**	**4,127**	**299,189**

[1)] of which PLN 3,152 million denominated in Swiss francs and PLN 121 million in Norwegian kroner.
[2)] of which PLN 108 million denominated in Swiss francs, PLN 83 million in Norwegian kroner and PLN 55 million in Swedish kronor.

Assets by currency (restated)	31 December 2016								
	PLN	EUR	USD	CZK	GBP	HUF	RON	Other	Total
Assets held to maturity	16,790	507	17	-	-	-	-	32	17,346
Government securities	16,687	381	17	-	-	-	-	32	17,117
Other	103	126	-	-	-	-	-	-	229
Assets available for sale	10,832	635	176	-	6	-	-	3	11,652
Equity instruments	275	159	-	-	-	-	-	-	434
Debt securities	10,557	476	176	-	6	-	-	3	11,218
Government securities	7,344	452	176	-	6	-	-	3	7,981
Other	3,213	24	-	-	-	-	-	-	3,237
Assets measured at fair value – classified as such upon first recognition	12,282	807	780	175	-	178	153	104	14,479
Equity instruments	2,639	229	35	17	-	10	-	21	2,951
Debt securities	9,643	578	745	158	-	168	153	83	11,528
Government securities	9,618	532	742	158	-	168	153	66	11,437
Other	25	46	3	-	-	-	-	17	91
Assets held for trading	5,301	987	540	212	9	94	84	176	7,403
Equity instruments	3,724	211	94	-	-	13	24	-	4,066

(in millions of PLN)

Assets by currency (restated)	31 December 2016								
	PLN	**EUR**	**USD**	**CZK**	**GBP**	**HUF**	**RON**	**Other**	**Total**
Debt securities	1,241	582	349	188	-	14	58	24	2,456
Government securities	1,168	582	349	188	-	14	58	24	2,383
Other	73	-	-	-	-	-	-	-	73
Derivatives	336	194	97	24	9	67	2	152	881
Hedge derivatives	72	-	-	-	-	-	-	-	72
Loans	47,605	5,166	578	491	202	-	-	292	54,334
Debt securities	2,421	-	40	-	-	-	-	2	2,463
Government securities	-	-	-	-	-	-	-	2	2
Other	2,421	-	40	-	-	-	-	-	2,461
Other, including:	45,184	5,166	538	491	202	-	-	290	51,871
- loan receivables from clients	39,526	4,797	232	-	202	-	-	241 [1)]	44,998
- buy-sell-back transactions	2,880	-	-	-	-	-	-	-	2,880
- term deposits with credit institutions	1,238	231	276	491	-	-	-	49	2,285
- loans	1,540	138	30	-	-	-	-	-	1,708
Receivables	4,415	828	377	-	-	-	-	44	5,664
Cash and cash equivalents	725	1,616	230	131	97	12	1	161 [2)]	2,973
Total assets	**98,022**	**10,546**	**2,698**	**1,009**	**314**	**284**	**238**	**812**	**113,923**

[1)] of which PLN 228 million denominated in Swiss francs.

[2)] of which, among others, PLN 30 million denominated in Swiss francs, PLN 29 million denominated in Swedish kronor, PLN 23 million denominated in Canadian dollars and PLN 22 million denominated in Norwegian kroner.

(in millions of PLN)

Liabilities by currency as at 31 December 2017	PLN	EUR	USD	GBP	HUF	RON	Other	Total
Financial liabilities measured at fair value	4,199	385	223	10	24	-	115	4,956
Derivatives held for trading	2,038	285	134	10	24	-	115	2,606
Cash flow hedge derivatives	682	-	-	-	-	-	-	682
Fair value hedge derivatives	75	100	11	-	-	-	-	186
Liabilities on borrowed securities (short sale)	672	-	78	-	-	-	-	750
Investment contracts for the client's account and risk (unit-linked)	312	-	-	-	-	-	-	312
Liabilities to members of consolidated mutual funds	420	-	-	-	-	-	-	420
Financial liabilities measured at amortized cost	177,548	27,346	10,790	1,607	3	8	2,249	219,551
Liabilities to banks	2,067	2,559	95	6	-	-	596 [1)]	5,323
Liabilities to clients	163,350	20,853	10,695	1,601	3	8	1,653 [2)]	198,163
Liabilities on the issue of own debt securities	5,718	3,849	-	-	-	-	-	9,567
Subordinated liabilities	5,234	85	-	-	-	-	-	5,319
Liabilities on account of repurchase transactions	1,167	-	-	-	-	-	-	1,167
Investment contracts with guaranteed and fixed terms and conditions	1	-	-	-	-	-	-	1
Finance lease liabilities	11	-	-	-	-	-	-	11
Other liabilities	7,627	954	257	12	24	26	145	9,045
Total liabilities by currency	**189,374**	**28,685**	**11,270**	**1,629**	**51**	**34**	**2,509**	**233,552**

[1)] of which PLN 591 million denominated in Swiss francs.

[2)] of which PLN 597 million denominated in Czech korunas, PLN 534 million denominated in Swiss francs, PLN 153 million denominated in Norwegian kroner and PLN 129 million denominated in Swedish kronor.

(in millions of PLN)

Liabilities by currency as at 31 December 2016 (restated)	PLN	EUR	USD	GBP	HUF	CZK	Other	Total
Financial liabilities measured at fair value	2,760	146	192	8	46	25	137	3,314
Derivatives held for trading	314	120	131	8	46	25	137	781
Cash flow hedge derivatives	-	6	-	-	-	-	-	6
Liabilities on borrowed securities (short sale)	573	20	61	-	-	-	-	654
Investment contracts for the client's account and risk (unit-linked)	329	-	-	-	-	-	-	329
Liabilities to members of consolidated mutual funds	1,544	-	-	-	-	-	-	1,544
Financial liabilities measured at amortized cost	45,220	8,154	2,376	547	-	-	419	56,716
Liabilities to banks	435	48	40	-	-	-	-	523
Liabilities to clients	43,603	4,336	2,336	547	-	-	419	51,241
Liabilities on the issue of own debt securities (PZU)	-	3,680	-	-	-	-	-	3,680
Subordinated liabilities (Alior Bank)	937	90	-	-	-	-	-	1,027
Liabilities on account of repurchase transactions	178	-	-	-	-	-	-	178
Investment contracts with guaranteed and fixed terms and conditions	67	-	-	-	-	-	-	67
Other liabilities	4,448	340	149	8	-	-	46	4,991
Total liabilities by currency	**52,428**	**8,640**	**2,717**	**563**	**46**	**25**	**602**	**65,021**

(in millions of PLN)

To manage its FX risk, the PZU Group uses also derivatives which allows it to take a selected market exposure in a more efficient manner than by using cash instruments.

The following table presents the sensitivity test of the portfolio of PZU Group's financial instruments (except for loan receivables from clients and deposit liabilities) in respect to financial instruments for which the PZU Group bears the risk.

Financial assets exposed to exchange risk include deposit transactions and debt securities used to hedge payments from technical provisions denominated in foreign currencies, exposures to equity instruments quoted on stock exchanges other than WSE, mutual fund units and certificates, exposures to derivatives denominated in foreign currencies and financial assets of consolidated international insurance companies.

Change in portfolio value caused by a +/-20% change of the exchange rate	31 December 2017		31 December 2016	
	decrease	increase	decrease	increase
EUR	371	(305)	395	(395)
USD	(29)	39	1	(1)
GBP	(3)	3	(3)	3
Other	(80)	80	(12)	12
Total	**259**	**(183)**	**381**	**(381)**

Both Pekao and Alior Bank use the VaR model to measure currency risk. It allows them to calculate potential loss on currency positions kept by the Bank caused by changes in exchange rates, while maintaining the assumed confidence level (99%) and the period in which the position is kept. The following table presents VaR determined for the trading book FX risk in both banks:

10-day VaR – fx risk – trading book (thous. PLN)	31 December 2017	31 December 2016
Pekao	2,337	n/a
Alior Bank	157	280

7.5.3.3. Equity risk

Level of risk exposure

The value of the portfolio of financial instruments available for sale and measured at fair value through profit or loss is presented respectively in sections 33.3 and 33.4.

Sensitivity analysis

The following table presents the sensitivity test of PZU Group's equity to the portfolio of quoted equity instruments for which the PZU Group bears the risk.

Impact of a change in the measurement of quoted equity instruments on equity	31 December 2017	31 December 2016
increase in measurement of quoted equity instruments by 20%	350	527
decrease in measurement of quoted equity instruments by 20%	(350)	(527)

7.5.3.4. Liquidity risk

Insurance activity

Financial liquidity risk of the PZU Group may result from three types of events:

- shortage of liquid cash compared to current needs;
- illiquidity of financial instruments held;
- structural maturity mismatch between assets and liabilities.

In the liquidity risk management process, liquidity is controlled in the short, medium and long term, i.e.:

- short-term liquidity – the balance of funds in the liquidity portfolio is maintained at no more than the limit specified for them. Conditional sell-buy-back transactions are also used to manage liquidity;
- medium-term liquidity – investment portfolios with appropriate liquidity are maintained;
- long-term liquidity and risk of structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM) involves matching the structure of financial investments, which provide coverage for technical provisions, to the character of such provisions.

Another objective of the ALM process is to ensure the capability to pay claims and benefits, also in unfavorable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required to pay liabilities. The estimate is made using a set of analyzes, including among others a liquidity gap analysis (a mismatch of net cash flows) and an analysis of the distribution of expenditures relating to operating activity.

Pekao

The objective of liquidity risk management is to:

- ensure and maintain the ability to meet both current and future liabilities, taking into account the costs of raising liquidity and return on equity;
- prevent a crisis situation, and
- identify the arrangements for overcoming a crisis when and if it occurs.

Pekao has a centralized liquidity risk management system in place, which includes regular liquidity management and first level control exercised by responsible units, second level control exercised by a dedicated unit responsible for risk management and independent audit.

Liquidity management in the Pekao Group is planned within the following time horizons:

- intraday – applicable to intra-day flows;
- short-term – including a liquidity measurement system within a one-year horizon;
- long-term – covering a period of more than one year.

Due to the specific nature of the liquidity risk management tools and techniques used, the Pekao Group manages its current and medium-term liquidity together with short-term liquidity.

Alior Bank

The liquidity risk management policy at Alior Bank consists in maintaining liquidity positions so that it is possible to satisfy payment obligations at all times using the available cash in hand, proceeds from transactions with specified maturity dates or through the sale of transferable assets, while minimizing the costs of maintaining liquidity.

Alior Bank manages its liquidity by using ratios and related limits of the following types of liquidity:

- payment liquidity – capacity to finance assets and pay liabilities on a timely basis in the ordinary course of business or in other foreseeable circumstances, without a need to incur loss. In payment liquidity management, special emphasis is placed on the analysis of immediate and current liquidity (up to 7 days);
- short-term liquidity – capacity to pay all cash liabilities as they become due and payable, in the period of next 30 days;
- medium-term liquidity – capacity to pay all liabilities with maturity dates from 1 to 12 months;
- long-term liquidity – monitoring the capacity to pay all cash liabilities as they become due, in the period of more than 12 months.

(in millions of PLN)

Risk exposure

Carrying amount of debt instruments by maturity, as at 31 December 2017	**up to 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 – 5 years**	**over 5 years**	**Total**
Debt instruments held to maturity	229	1,350	1,087	1,243	4,604	12,724	21,237
Government securities	139	1,271	1,081	1,200	4,600	12,715	21,006
Other	90	79	6	43	4	9	231
Debt instruments available for sale	19,457	5,260	2,632	3,756	4,803	11,947	47,855
Government securities	6,269	5,010	2,519	3,424	4,571	11,856	33,649
Other	13,188	250	113	332	232	91	14,206
Debt instruments measured at fair value – classified as such upon first recognition	22	272	771	1,554	444	1,640	4,703
Government securities	20	272	770	1,549	417	1,636	4,664
Other	2	-	1	5	27	4	39
Debt securities held for trading	263	780	1,587	1,917	1,110	3,319	8,976
Government securities	240	764	1,482	1,903	1,094	3,216	8,699
Other	23	16	105	14	16	103	277
Loans	52,025	20,036	15,893	12,149	14,190	75,211	189,504
Debt securities	1,882	1,601	1,389	982	1,563	6,206	13,623
Government securities	-	1	-	-	-	-	1
Other	1,882	1,600	1,389	982	1,563	6,206	13,622
Other, including:	50,143	18,435	14,504	11,167	12,627	69,005	175,881
- loan receivables from clients	47,531	18,362	13,640	11,036	12,321	66,567	169,457
- buy-sell-back transactions	885	-	-	-	-	-	885
- term deposits with credit institutions	1,625	23	76	110	-	7	1,841
- loans	102	50	788	21	306	2,431	3,698
Total	**71,996**	**27,698**	**21,970**	**20,619**	**25,151**	**104,841**	**272,275**

(in millions of PLN)

Carrying amount of debt instruments by maturity, as at 31 December 2016 (restated)	**up to 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 – 5 years**	**over 5 years**	**Total**
Debt instruments held to maturity	2,796	186	1,150	398	464	12,352	17,346
Government securities	2,771	127	1,069	391	418	12,341	17,117
Other	25	59	81	7	46	11	229
Debt instruments available for sale	4,051	1,708	1,233	1,485	1,644	1,097	11,218
Government securities	1,434	1,696	897	1,320	1,639	995	7,981
Other	2,617	12	336	165	5	102	3,237
Instruments measured at fair value – classified as such upon first recognition	1,305	1,574	855	1,437	2,157	4,200	11,528
Government securities	1,304	1,554	855	1,436	2,115	4,173	11,437
Other	1	20	-	1	42	27	91
Instruments held for trading	55	330	326	301	295	1,149	2,456
Government securities	5	307	326	301	295	1,149	2,383
Other	50	23	-	-	-	-	73
Loans	21,006	5,039	3,633	4,498	3,307	16,851	54,334
Debt securities	714	177	346	27	27	1,172	2,463
Government securities	1	-	1	-	-	-	2
Other	713	177	345	27	27	1,172	2,461
Other, including:	20,292	4,862	3,287	4,471	3,280	15,679	51,871
- loan receivables from clients	15,300	4,732	3,215	3,221	3,226	15,304	44,998
- buy-sell-back transactions	2,880	-	-	-	-	-	2,880
- term deposits with credit institutions	2,082	-	22	129	32	20	2,285
- loans	30	130	50	1,121	22	355	1,708
Total	**29,213**	**8,837**	**7,197**	**8,119**	**7,867**	**35,649**	**96,882**

(in millions of PLN)

The following table presents future undiscounted cash flow from assets and liabilities as at 31 December 2017.

Liquidity risk	Up to 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	5 to 10 years	Over 10 years	Total
Assets	**104,010**	**31,635**	**26,070**	**21,728**	**25,122**	**58,772**	**51,646**	**318,983**
Cash and cash equivalents	4,935	193	139	112	96	345	2,419	8,239
Receivables	7,609	1,288	14	8	24	4	163	9,110
Loan receivables from clients	50,135	24,483	18,784	13,829	16,841	41,624	33,070	198,766
Debt securities	38,496	5,071	5,939	7,409	7,589	14,493	15,849	94,846
Loans	307	576	1,053	312	572	2,306	145	5,271
Buy-sell-back transactions	885	-	-	-	-	-	-	885
Term deposits with credit institutions	1,643	24	141	58	-	-	-	1,866
Liabilities	**(116,564)**	**(16,916)**	**(7,347)**	**(6,125)**	**(4,694)**	**(19,181)**	**(96,044)**	**(266,871)**
Technical provisions	(6,873)	(1,714)	(1,146)	(929)	(798)	(2,940)	(20,469)	(34,869)
Financial liabilities	(104,300)	(15,047)	(6,190)	(5,189)	(3,894)	(16,231)	(73,741)	(224,592)
Other liabilities	(5,391)	(155)	(11)	(7)	(2)	(10)	(1,834)	(7,410)
Gap	**(12,554)**	**14,719**	**18,723**	**15,603**	**20,428**	**39,591**	**(44,398)**	**52,112**

The following table presents future undiscounted cash flows from banks' off-balance sheet liabilities (by contractual terms)

Off-balance sheet liabilities granted	up to 1 month	1 -3 months	3 months to 1 year	1 – 5 years	over 5 years	Total
Financing	37,146	341	1,621	4,167	1,818	**45,093**
Guarantees	11,534	81	441	405	282	**12,743**
Total	**48,680**	**422**	**2,062**	**4,572**	**2,100**	**57,836**

7.5.4. Operational risk

Operational risk is the risk of suffering loss resulting from improper or erroneous internal processes, human activities, system failures or external events.

Operational risk management has the purpose of optimizing the level of operational risk and operating efficiency in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective controls. Operational risk is managed in accordance with defined guidelines which take into account external conditions and information on operational risk levels is regularly reported to relevant internal authorities.

7.5.5. Compliance risk

Compliance risk is the risk of legal sanctions, financial losses or loss of reputation or credibility arising from a failure of PZU Group companies, their employees or entities acting on their behalf to comply with the law, internal regulations or standards of conduct, including ethical standards.

The demarcation of responsibilities with respect to systemic and ongoing compliance risk management is based on internal regulations.

Systemic management entails in particular: developing solutions for implementing compliance risk management principles, monitoring the compliance risk management process and promoting and monitoring compliance with internal regulations and standards of conduct in respect to compliance.

Ongoing compliance risk management entails: identifying, assessing and measuring and adaptation to regulatory requirements.

8. Capital management

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

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 2016 report published on 30 June 2017 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. For the 2017 report, the publication deadline is no later than 24 weeks after the year end, i.e. in practice until 18 June 2018. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance company is audited 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.

9. Fair value

9.1 Description of valuation techniques

9.1.1. 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.

9.1.2. 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.

9.1.3. 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.

9.1.4. 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.

9.1.5. Property 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 exemptions in the payment of rent, 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 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.

9.1.6. Financial liabilities

9.1.6.1. 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.

9.1.6.2. 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.

9.1.6.3. 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.

9.1.6.4. 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).

9.1.6.5. Liabilities on borrowed securities

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

9.2 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 recoveries 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.
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 $1m^2$ of relevant space or for one parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
Derivatives	Model parameters	Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Own issues and subordinated loans	Issue spread above the market curve	If historical issue spread above the market curve is used, these issues are classified at level 3 of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services	

9.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 December 2017				31 December 2016 (restated)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Financial assets available for sale	30,027	17,081	1,411	48,519	8,113	2,887	652	11,652
Equity instruments	210	156	298	664	132	264	38	434
Debt securities	29,817	16,925	1,113	47,855	7,981	2,623	614	11,218
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	6,143	464	43	6,650	12,555	1,882	42	14,479
Equity instruments	1,802	127	18	1,947	2,837	97	17	2,951
Debt securities	4,341	337	25	4,703	9,718	1,785	25	11,528
Financial instruments measured at fair value through profit or loss – held for trading	7,392	8,008	197	15,597	1,882	5,333	188	7,403
Equity instruments	526	4,091	-	4,617	745	3,321	-	4,066
Debt securities	6,837	2,042	97	8,976	1,119	1,202	135	2,456
Derivatives	29	1,875	100	2,004	18	810	53	881
Hedge derivatives	-	347	-	347	-	72	-	72
Investment property	-	151	2,203	2,354	-	149	1,589	1,738
Assets held for sale	-	44	247	291	-	49	1,081	1,130
Liabilities								
Derivatives	22	2,532	52	2,606	31	724	26	781
Hedge derivatives	-	868	-	868	-	6	-	6
Liabilities to members of consolidated mutual funds	-	420	-	420	-	1,544	-	1,544
Investment contracts for the client's account and risk *(unit-linked)*	-	312	-	312	-	329	-	329
Liabilities on borrowed securities (short sale)	737	13	-	750	654	-	-	654

(in millions of PLN)

Change 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		
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	(101)	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	(101)	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	-	22	-
Foreign exchange translation differences	(3)	-	-	-	-	-		-
Sale and settlements	-	(437)	(22)	(2)	(380)	(22)	(4)	(16)
Other	-	17	-	-	-	-	-	-
End of the period	**298**	**1,113**	**18**	**25**	**97**	**100**	**2,203**	**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)

Change in assets and liabilities classified as Level III of the fair value hierarchy, in the year ended 31 December 2016 (restated data)	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		
Beginning of the period	17	653	26	28	74	55	1,055	35
Purchase/opening of the position	4	37	27	-	64	19	139	10
Reclassification from own properties and properties held for sale	-	-	-	-	-	-	300	-
Profit or loss recognized in the profit and loss account as:	-	(14)	(36)	(3)	2	3	98	-
- net investment income	-	-	-	-	-	-	-	-
- net result on realization and impairment losses on investments	-	(8)	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(6)	(36)	(3)	2	3	98	-
Profit or loss recognized in other comprehensive income	-	-	-	-	-	-	-	2
Change in the composition of the Group	17	-	-	-	-	-	-	-
Sale and settlements	-	(62)	-	-	(5)	(24)	(3)	(21)
End of the period	**38**	**614**	**17**	**25**	**135**	**53**	**1,589**	**26**

(in millions of PLN)

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

In 2017, no changes were made in the fair value measurement method for financial instruments measured at fair value that would be of material significance for the consolidated financial statements.

To reflect the fair value more precisely, as of 30 June 2016, for some financial assets (primarily debt financial instruments listed in foreign markets), the fair value is determined on the basis of the valuations published by an authorized information service rather than as previously: on the basis of quotations from the interbank market. The PZU Group concluded that, because of the low activity of the inter-bank market, the change of the source of valuation makes it possible to take into account, when estimating fair value, a broader range of information on transactions and offers from multiple markets on which the financial instrument is quoted. The assets for which the source of valuation was changed were reclassified from Level I to Level II fair value.

9.2.1.2. Investment property classified as Level III fair value

Investment property classified as Level III	31 December 2017	31 December 2016
Office properties	710	902
Commercial properties	102	-
Warehousing properties	1,365	681
Other	26	6
Total investment property classified as Level III	**2,203**	**1,589**

No.	Property name	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Type of space	Scope of data unobservable on an active market as at 31 December 2017	Scope of data unobservable on an active market as at 31 December 2016
Property measured by the income approach using the investment method and the income stream discounting technique						
1.	Office complex, Wrocław	250	282	Office	EUR 14.00 – 16.00	EUR 11.25 – 14.50
2.	Warehouse/office buildings, Łódź	248	263[1)]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.40 – 3.60	EUR 7.00 – 9.00 EUR 2.40 – 3.80
3.	Warehouse park, Bielany Wrocławskie	224	233	Office Warehouse Construction costs	EUR 6.50 – 9.00 EUR 2.90 – 3.30 [2)]	EUR 7.00 – 9.00 EUR 3.00 – 3.60 [2)]
4.	Office complex, Gdańsk	151	165	Office	EUR 11.00 – 14.50	EUR 13.00 – 15.00
5	Warehouse and office buildings, Gdańsk	129	138[1)]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.80 – 3.20	EUR 7.00 – 9.00 EUR 2.80 – 3.20
6.	Office complex, Warsaw	120	130	Office Parking lot	EUR 12.5 – 19.18 EUR 35.00 – 119.88	EUR 6.33 – 15.00 EUR 65.00 – 90.00
7.	Warehouse and office building, Nowa Wieś Wrocławska	114	124[1)]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.90 – 3.50	EUR 7.00 – 9.00 EUR 3.00 – 3.60
8.	Warehouse park under construction, Komorniki	108	116	Office Warehouse Construction costs	EUR 6.50 – 9.00 EUR 2.75 – 3.60 [2)]	EUR 7.00 – 9.00 EUR 3.00 – 3.50 [2)]
9.	Office building, Warsaw	104	111	Office Parking lot	EUR 8.00 – 18.00 EUR 65.00 – 90.00	EUR 8.00 – 16.50 EUR 50.00 – 80.00

(in millions of PLN)

No.	Property name	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Type of space	Scope of data unobservable on an active market as at 31 December 2017	Scope of data unobservable on an active market as at 31 December 2016
10.	Shopping Center, Pabianice	76	88[1]	Commercial (depending on size of leased space)	[3]	[3]
11.	Shopping gallery, Iława	71	70[1]	Commercial (depending on size of leased space)	[3]	[3]
12.	Warehouse/office buildings, Łódź	63	66[1]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.40 – 3.60	EUR 7.00 – 9.00 EUR 2.40 – 3.80
13.	Warehouse and office building, Nowa Wieś Wrocławska	61	65[1]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.90 – 3.50	EUR 7.00 – 9.00 EUR 3.00 – 3.60
14.	Warehouse and office complex, Błonie	37	39[1]	Office in warehouse facilities Warehouse	EUR 6.50 – 9.00 EUR 2.50 – 3.60	EUR 7.00 – 9.00 EUR 2.50 – 3.80
15.	Shopping gallery, Lubin	31	34[1]	Commercial (depending on size of leased space)	[3]	[3]
Property measured by the mixed approach using the residual method						
16.	Warehouse park under construction, Sosnowiec Pieńki	260	217	Office Warehouse Construction costs	EUR 6.50 – 9.00 EUR 2.40 – 3.60 [2]	EUR 7.00 – 9.00 EUR 2.89 – 3.60 [2]
17.	Warehouse park under construction, Sosnowiec	122	116	Office Warehouse Construction costs	EUR 6.50 – 9.00 EUR 2.80 – 3.50 [2]	EUR 7.00 – 9.00 EUR 2.89 – 3.60 [2]
11.	Other	34	219 [4]	n/a	n/a	n/a
	Total – investment property	**2,203**	**1,589**			
	TOTAL – held for sale (as classified as at 31 December 2016)	**-**	**887**			
	TOTAL	**2,203**	**1,589**			

[1] As at 31 December 2016, the properties were classified as assets held for sale.
[2] Construction costs were determined based on market construction costs less costs incurred as at the date of measurement.
[3] Market rent for the real property was determined on the basis of an analysis of the commercial space market in facilities with similar locations and characteristics as the property being measured.
[4] Due to the change of use, the investment property, whose value as at 31 December 2016 was PLN 165 million, was reclassified to own property, while the investment property, whose value as at 31 December 2016 was PLN 34 million was reclassified to assets held for sale.

(in millions of PLN)

9.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 December 2017				31 December 2016 (restated)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured by the equity method – EMC	-	20	-	20	-	37	-	37
Financial assets held to maturity	17,631	305	5,582	23,518	15,531	15	3,520	19,066
Loans								
Debt securities	1	8,153	5,500	13,654	1	1	2,467	2,469
Loan receivables from clients	-	-	169,393	169,393	-	-	44,866	44,866
Buy-sell-back transactions	-	553	333	886	-	583	2,296	2,879
Term deposits with credit institutions	-	838	1,005	1,843	-	583	1,698	2,281
Loans	-	-	3,744	3,744	-	-	1,705	1,705
Liabilities								
Liabilities to banks	-	1,161	4,092	5,253	-	399	124	523
Liabilities to clients	-	-	201,605	201,605	-	-	51,364	51,364
Liabilities on the issue of own debt securities	-	2,808	6,584	9,392	-	-	6,545	6,545
Subordinated liabilities	-	1,257	4,108	5,365	-	-	1,027	1,027
Investment contracts with guaranteed and fixed terms and conditions	-	1	-	1	-	67	-	67

9.3 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 2017, PLN-denominated treasury bonds, for which active market quotations were available, were reclassified from Level II to Level I. As at 31 December 2017, the carrying amount of the reclassified bonds was PLN 612 million.

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

- On 30 June 2016 some financial assets were reclassified from Level I to Level II; on the reclassification date, their fair value was PLN 2,600 million. Information on the reasons for reclassification is presented in item 9.2.1.1.
- On 30 September 2016 one bond classified in the portfolio of assets available for sale with a carrying amount of PLN 46 million was reclassified from Level III to Level I in connection with the appearance of available quotations on an active market.

(in millions of PLN)

10. Gross written premiums

10.1 Accounting policy

Premium written under insurance contracts and inward reinsurance contracts is recognized on the date of concluding an insurance contract.

10.1.1. Non-life insurance

Gross written premiums include amounts, regardless of whether these amounts have been paid.

- due for the entire liability period, regardless of its length, on account of the insurance contracts concluded in the reporting period – if the duration of the liability period is specified;
- due in the reporting period – if the duration of the liability period is not specified.

These premiums are adjusted by the change in the provision for unearned premiums in the reporting period and reduced by premiums due to reinsurers.

10.1.2. Life insurance

Gross written premiums include the amounts due during the reporting period for the concluded insurance contracts, regardless of whether these amounts have been paid and whether they relate to the whole or part of the reporting period. These premiums are adjusted by the change in the provision for unearned premiums in the reporting period and reduced by premiums due to reinsurers.

10.2 Quantitative data

Gross written premiums	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Gross written premiums in non-life insurance	14,228	12,182
In direct insurance	14,253	11,981
In indirect insurance	(25)	201
Gross written premiums in life insurance	8,619	8,037
Individual insurance premiums	1,762	1,260
Individually continued insurance premiums	1,977	1,946
Group insurance premiums	4,880	4,831
Total gross written premiums	**22,847**	**20,219**

In 2017 and in 2016, PZU Group companies did not conclude inward reinsurance contracts in life insurance.

(in millions of PLN)

Gross written premiums in non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Accident and sickness insurance (group 1 and 2)	592	577
Motor third party liability insurance (group 10)	5,777	4,467
Other motor insurance (group 3)	3,714	3,272
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	74	85
Insurance against fire and other property damage (groups 8 and 9)	2,718	2,380
TPL insurance (groups 11, 12, 13)	773	753
Credit and suretyship (groups 14, 15)	100	66
Assistance (group 18)	434	381
Legal protection (group 17)	10	7
Other (group 16)	36	194
Total	**14,228**	**12,182**

11. Revenue from commissions and fees

11.1 Accounting policy

Revenue from commissions and fees is generally recognized when the service is provided. Fees and commissions directly related to the origination of financial assets or liabilities (both income and costs) that are not an integral part of the effective interest rate are accounted for using the straight-line method. Other fees and commissions (that are not an integral part of the effective interest rate and are not accounted for by the straight-line method) related to financial services (e.g. cash management services, brokerage services, investment advisory services, financial planning, investment banking services and asset management services) are recognized in the profit and loss account when the service is provided.

Revenue from management of open-end pension funds and revenue and fees received from funds and mutual fund companies are recognized on an accrual basis.

11.2 Quantitative data

Revenue from commissions and fees	**1 January – 31 December 2017**	**1 January – 31 December 2016** (restated)
Banking activity	1,921	590
Brokerage fees	193	75
Fiduciary activity	49	-
Payment card and credit card services	567	114
Fees on account of insurance intermediacy activities	107	75
Credits and loans	275	64
Bank account-related services	316	114
Transfers	201	42
Cash operations	80	27
Receivables purchased	28	9
Suretyship, letters of credit, collections, promises	48	14
Other commission	57	56
Revenue and payments received from funds and mutual fund companies	277	111
Pension insurance	138	110
Other	5	6
Total revenue from commissions and fees	**2,341**	**817**

(in millions of PLN)

12. Net investment income

12.1 Accounting policy

Interest income comprises interest on financial instruments measured at amortized cost, available for sale and hedging derivatives. Interest income also includes fees and commissions directly related to the creation of a financial instrument constituting an integral part of the effective interest rate.

The effective interest rate is the rate that discounts estimated future cash flows to the net carrying amount of the financial asset or financial liability.

Interest income is recognized on an accrual basis based on the effective interest rate.

Dividends are recognized as income when the right to dividend is acquired.

12.2 Quantitative data

Net investment income	**1 January – 31 December 2017**	**1 January – 31 December 2016** (restated)
Interest income, including:	8,265	3,793
Bank loans	6,150	2,416
Financial assets available for sale	551	182
Financial assets held to maturity	921	811
Loans	395	300
Receivables purchased	83	12
Hedge derivatives	91	29
Receivables	42	21
Cash and cash equivalents	32	22
Dividend income, including:	40	66
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	31	44
Financial assets held for trading	6	19
Financial assets available for sale	3	3
Income on investment property	262	241
Foreign exchange differences	589	120
Other, including:	(105)	(109)
Investment activity expenses	(28)	(29)
Investment property maintenance expenses	(104)	(93)
Other	27	13
Net investment income, total	**9,051**	**4,111**

13. Net result on realization and impairment losses on investments

13.1 Accounting policy

Net result on realization contains gains and losses arising from the sale of financial instruments.

Impairment losses contain the balance of impairment losses recognized and reversed in accordance with the rules described in section 33.7.1.

(in millions of PLN)

13.2 Quantitative data

Net result on realization and impairment losses on investments	1 January – 31 December 2017	1 January – 31 December 2016
Net result on realization of investments	**247**	**(93)**
Financial assets measured at fair value through profit or loss – classified as such upon first recognition, including:	(14)	(21)
Equity instruments	(34)	90
Debt securities	20	(111)
Financial assets held for trading, including:	261	(131)
Equity instruments	113	88
Debt securities	(26)	(8)
Derivatives	174	(211)
Financial assets available for sale, including:	27	76
Equity instruments	(8)	6
Debt securities	35	70
Loans	30	24
Receivables, including receivables due under insurance contracts	(68)	(55)
Investment property	10	13
Other	1	1
Impairment losses	**(1,207)**	**(842)**
Financial assets available for sale, including:	7	(8)
Equity instruments	-	(1)
Debt securities	7	(7)
Loans, including:	(1,138)	(801)
Debt securities	49	(33)
Loan receivables from clients	(1,187)	(768)
Receivables	(64)	(9)
Entities measured by the equity method – EMC [1)]	(12)	(14)
Goodwill of acquired credit unions	-	(10)
Total net result on realization and impairment losses on investments	**(960)**	**(935)**

[1)] Additional information on the measurement of EMC and the impairment test is presented in item 32.3.

14. Net movement in fair value of assets and liabilities measured at fair value

14.1 Accounting policy

Information on the method used to determine fair value of assets and liabilities is presented in section 9.

(in millions of PLN)

14.2 Quantitative data

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Financial instruments measured at fair value through profit or loss – classified in that category upon first recognition, including:	176	94
Equity instruments	178	(123)
Debt securities	41	250
Measurement of liabilities to members of consolidated mutual funds	(32)	(26)
Investment contracts for the client's account and risk (unit-linked)	(11)	(7)
Financial instruments held for trading, including:	417	157
Equity instruments	99	(47)
Debt securities	146	69
Derivatives	156	135
Financial liabilities	16	-
Investment property	(185)	84
Fair value hedging instruments	3	-
Total net movement in fair value of assets and liabilities measured at fair value	**411**	**335**

15. Other operating income

Other operating income	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Gain on bargain purchase of Bank BPH	-	465
Revenues on the sales of products, merchandise and services by non-insurance companies	514	419
Revenues from direct claims handling on behalf of other insurance companies	211	215
Reversal of provisions	81	25
Reimbursement of the costs of pursuit of claims	34	21
Reinsurance commissions and profit participation	25	19
Reversal of impairment losses for non-financial assets	29	7
Interest for late payment of amounts due under direct insurance and outward reinsurance	19	13
Commissions for acting as an emergency adjuster	7	7
Written off liabilities on account of premium refunds and payment surpluses	57	20
Other	201	125
Other operating income, total	**1,178**	**1,336**

16. Claims, benefits and movement in technical provisions

16.1 Accounting policy

The expenses of the reporting period include all the costs of claims and benefits paid under the concluded insurance contracts with direct and indirect claims handling expenses and movement in provision for outstanding claims and benefits.

(in millions of PLN)

16.1.1. Non-life insurance

In non-life insurance costs of claims and benefits are reduced by all the salvage and subrogation received and by the movement in estimated salvage and subrogation.

16.1.2. Life insurance

Benefits paid include all payments and deductions made during the reporting period for benefits incurred during the reporting period and previous periods (including annuities and surrenders) and all direct and indirect, external and internal claim handling expenses. Claims handling expenses also include expenses related to disputes.

The value of benefits is recognized at the amount actually paid out, after deducting returns and refunds (except for outward reinsurance refunds), plus the movement in the provision for unpaid claims, less the reinsurers' share in claims paid and in provisions.

16.2 Quantitative data

Claims, benefits and movement in technical provisions	1 January – 31 December 2017	1 January – 31 December 2016
Claims, benefits and movement in technical provisions	**15,376**	**12,888**
In non-life insurance	8,525	7,108
- claims and benefits	7,074	6,574
- movement in technical provisions	685	(165)
- claims handling expenses	766	699
In life insurance	6,851	5,780
- claims and benefits	5,945	5,843
- movement in technical provisions	772	(195)
- claims handling expenses	134	132
Reinsurers' share in claims, benefits and movement in technical provisions	**(435)**	**(156)**
In non-life insurance	(435)	(156)
Total net insurance claims and benefits	**14,941**	**12,732**

Claims and benefits handling expenses by type	1 January – 31 December 2017	1 January – 31 December 2016
Consumption of materials and energy	14	12
Third party services	239	223
Taxes and fees	32	23
Employee expenses	384	343
Depreciation of property, plant and equipment	14	14
Amortization of intangible assets	31	24
Other, including:	186	192
- awarded costs, interest and fines in indemnity cases	173	169
- other	13	23
Total claims and benefits handling expenses	**900**	**831**

(in millions of PLN)

17. Fee and commission expense

Fee and commission expense	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Costs of card and ATM transactions, including card issue costs	286	84
Commissions on acquisition of banking clients	43	35
Fees for the provision of ATMs	38	22
Costs of awards to banking clients	20	24
Costs of bank transfers and remittances	30	18
Additional services attached to banking products	26	26
Brokerage fees	11	4
Costs of administration of bank accounts	3	-
Costs of banknote operations	10	2
Fiduciary activity expenses	12	1
Other commission	78	57
Total fee and commission expense	**557**	**273**

18. Interest expense

18.1 Accounting policy

Interest expenses are recognized in the profit and loss account using the effective interest rate.

18.2 Quantitative data

Interest expense	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Term deposits	750	398
Current deposits	249	48
Outstanding own debt securities	257	176
Hedge derivatives	18	12
Loans	5	-
Repurchase transactions	52	48
Bank loans contracted by PZU Group companies	8	4
Investment contracts with guaranteed and fixed terms and conditions	-	2
Other	26	9
Total interest expense	**1,365**	**697**

19. Acquisition expenses

Acquisition expenses include expenses related to the conclusion and extension of insurance agreements. Direct acquisition expenses include, among others, cost of commission for insurance intermediaries, employee remuneration costs associated with the conclusion of insurance agreements, cost of attestations, expert opinions and studies related to the accepted risk. Indirect acquisition expenses include costs of advertising and promoting insurance products and costs associated with the examination of applications and issuing policies.

According to the accrual accounting principle, some of the acquisition expenses are amortized over time, in accordance with the principles described in sections 29.1.1 and 29.1.2.

(in millions of PLN)

Acquisition expenses by type	1 January – 31 December 2017	1 January – 31 December 2016
Consumption of materials and energy	27	27
Third party services	83	95
Taxes and fees	5	6
Employee expenses	549	509
Depreciation of property, plant and equipment	23	23
Amortization of intangible assets	34	34
Other, including:	2,266	2,167
- commissions in insurance activities	2,200	2,092
- advertising	59	68
- other	7	7
Movement in deferred acquisition costs	(86)	(248)
Total acquisition expenses	**2,901**	**2,613**

20. Administrative expenses

20.1 Accounting policy

Administrative expenses include, among others:

- In insurance activity – insurance activity expenses not classified as acquisition expenses, related to premium collection, expenses related to management of the insurance contracts portfolio, reinsurance contracts portfolio and to overall management of PZU Group's insurance companies;
- In banking activity – bank's operating expenses, including employee, material costs, depreciation, taxes and fees.

20.2 Quantitative data

Administrative expenses by type	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Consumption of materials and energy	226	171
Third party services	1,064	600
Taxes and fees	61	37
Employee expenses	2,933	1,501
Depreciation of property, plant and equipment	266	116
Amortization of intangible assets	210	88
Compensation of group insurance administrators in work establishments	212	210
Other, including:	392	200
- advertising	171	121
- other	221	79
Total administrative expenses	**5,364**	**2,923**

(in millions of PLN)

21. Employee expenses

Employee expenses	1 January – 31 December 2017	1 January – 31 December 2016
Payroll	3,471	2,117
Defined contribution plans, including:	636	407
- charges on salary	568	342
- 3rd pillar pension insurance, including costs of Employee Pension Plan contributions incurred in the period	67	65
Other	163	131
Total employee expenses	**4,270**	**2,655**

In 2016-2017, PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, which were defined contribution plans. The employer additionally paid 7% of the gross salary amount as a contribution to these plans.

Employee expenses are recognized under "Claims and movement in technical provisions", "Acquisition expenses", "Administrative expenses" and "Other operating expenses" in the consolidated profit and loss account.

22. Other operating expenses

Other operating expenses	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Levy on financial institutions	822	395
Expenses of the core business of non-insurance and non-banking companies	642	506
Direct claims handling expenses on behalf of other insurance undertakings	220	223
Compulsory payments to insurance market institutions and banking market institutions	86	77
Bank Guarantee Fund	101	87
Insurance Indemnity Fund	69	60
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	28	30
Expenditures for prevention activity	34	77
Establishment of provisions	179	229
Amortization of intangible assets purchased in company acquisition transactions	278	90
Recognition of impairment losses for non-financial assets	81	84
Donations	15	46
Other	182	156
Other operating expenses, total	**2,737**	**2,060**

23. Income tax

23.1 Accounting policy

Income tax shown in the profit and loss account includes the current and deferred parts.

The deferred part is the difference between the balance of deferred tax liabilities and assets at the end and at the beginning of the reporting period with a reservation that changes in deferred tax liabilities and assets related to operations charged to equity are also charged to equity.

(in millions of PLN)

23.2 Quantitative data

Income tax	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Profit before tax (consolidated)	5,526	2,988
CIT rate (or range of CIT rates) for the country of the parent company's seat (%)	19%	19%
Income tax which would be calculated as the product of gross accounting profit of the entities and the CIT rate in the country of the parent company's seat	1,050	568
Differences between the income tax calculated above and the income tax shown in the profit and loss account:	243	46
- levy on financial institutions	156	75
- gain on bargain purchase of Bank BPH's Core Business	-	(88)
- provisions for credit receivables in the part not covered by deferred tax	(7)	26
- measurement of financial assets	55	(58)
- recognition/reversal of impairment losses for receivables, not classified as tax-deductible expenses	39	37
- recognition/reversal of other provisions and impairment losses for assets, not classified as tax-deductible expenses	28	19
- prudence fee payable to BFG	19	5
- change of tax law in Latvia	(9)	-
- differences due to different tax rates	(3)	(3)
- taxation of insurance activities in Ukraine	6	4
- tax losses	6	-
- charges to PFRON	4	2
- dividends	(2)	-
- depreciation and amortization	2	1
- other tax increases, waivers, exemptions, deductions and reductions	(51)	26
Income tax shown in the profit and loss account	**1,293**	**614**

Total amount of current and deferred tax	1 January – 31 December 2017	1 January – 31 December 2016
1. Recognized in the profit and loss account, including:	**1,293**	**614**
- current tax	1,353	787
- deferred tax	(60)	(173)
2. Recognized in other comprehensive income, including:	**31**	**(39)**
- deferred tax	31	(39)

Regulations governing value added tax, corporate income tax, personal income tax or contributions to social security undergo frequent changes. The current regulations contain confusing provisions, which result in differences of opinion concerning their legal interpretation, both between various state authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs or foreign currencies) may be inspected by authorities, which may levy high fines and any additional liabilities assessed during the inspection bear interest. These facts create tax risks in Poland and Ukraine that are higher than those typically found in countries with more developed tax systems. In Poland, tax settlements may be audited over a period of five years. As a result, the amounts reported in the consolidated financial statements may change at a later date after the final amounts are determined by tax authorities.

24. Earnings per share

24.1 Accounting policy

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders of PZU by the weighted average number of common shares outstanding during the period.

(in millions of PLN)

The weighted average number of common shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period, weighted by the ratio reflecting the period (in days) to the total number of shares in the period.

24.2 Quantitative data

Earnings per share	1 January – 31 December 2017	1 January – 31 December 2016 (restated)
Net profit attributable to the equity holders of the parent company	2,910	1,935
Weighted average basic and diluted number of common shares	863,519,608	863,510,930
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury stock (held by consolidated entities)	3,392	12,070
Basic and diluted earnings (losses) per common share (in PLN)	3.37	2.24

In the 2017 and in 2016, there were no transactions or events resulting in the dilution of earnings per share.

25. Income tax in other comprehensive income

Income tax on other comprehensive income items	1 January – 31 December 2017	1 January – 31 December 2016
Gross other comprehensive income	97	(164)
Income tax	(31)	39
Measurement of financial instruments available for sale	(28)	41
Other	(3)	(2)
Net other comprehensive income	**66**	**(125)**

26. Goodwill

26.1 Accounting policy

Goodwill, whose initial value has been determined in the manner described in section 5.6 is not amortized, but at the end of each financial year and any time there are any indications of impairment, it is tested for impairment. The goodwill impairment test involves assessing the recoverable amount of the individual cash-generating units to which goodwill has been allocated and comparing it with their carrying amount (including the allocated goodwill). If the recoverable amount is lower than the impairment loss applies first to the goodwill allocated to the cash-generating unit. The cash-generating unit, for which the test is performed may not be larger than an operating segment.

26.2 Quantitative data

Goodwill	31 December 2017	31 December 2016
Pekao	1,586	-
Alior Bank	746	746
PIM	692	-
Lietuvos Draudimas AB [1)]	462	489
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	37	40
Medical companies	90	82
Other	5	5
Total goodwill	**3,839**	**1,583**

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

(in millions of PLN)

Movement in goodwill	1 January – 31 December 2017	1 January – 31 December 2016
Gross goodwill at the beginning of the period	1,598	1,537
Changes in the period:	2,255	61
- acquisition of Pekao	1,586	-
- acquisition of PIM	692	-
- acquisition of other entities	8	42
- foreign exchange differences	(31)	19
Gross goodwill at the end of the period	3,853	1,598
Impairment losses at the beginning of the period	(15)	(5)
Changes in the period:	1	(10)
- impairment losses for SKOK	-	(10)
- foreign exchange differences	1	-
Impairment loss – at the end of the period	(14)	(15)
Net goodwill at the end of the period	**3,839**	**1,583**

26.3 Testing for impairment

Impairment tests for goodwill were performed as at 31 December 2017 for all the CGUs, to which goodwill was allocated, except for PIM. The test for PIM was not performed because the acquisition transaction took place in December 2017, shortly before the balance sheet date. As a result of the tests, no need has been found to recognize impairment losses.

The goodwill impairment test involves a comparison of carrying amounts (including the allocated goodwill) and recoverable amounts of the CGUs to which goodwill has been allocated. An impairment loss for a CGU should be recognized in the profit and loss account if CGU's recoverable amount is less than its carrying amount.

Cash-generating units (CGUs)

For foreign companies and Polish non-insurance companies, each entity is considered to be a separate CGU. During the final purchase price allocation, the goodwill arising from the acquisition of Link4 was fully allocated to the mass insurance segment in non-life insurance, which – due to the scale of integration of Link4's business with PZU under the 'two brands' strategy that assumed synergies resulting from the management of the mass client portfolio and sale of additional insurance products – is the smallest CGU to which goodwill can be allocated.

Carrying amount of the mass insurance segment

For the purposes of the test, the net carrying amount of the mass insurance segment was determined on the basis of allocation of the PZU Group's net assets. The assets were allocated in the proportion corresponding to the ratio of the hypothetical solvency capital requirement, which may be allocated to the mass insurance segment, to the total solvency capital requirement. The Euler method was used to allocate the solvency capital requirement. This method allocates to a segment the risk measures, which are based on Solvency II regulations and take into account diversification effects.

Recoverable amount corresponding to fair value

The recoverable amount is the higher of the fair value less costs of disposal or the value in use.

As at the balance sheet date, the recoverable amount based on fair value less costs of disposal of Pekao and Alior Bank is higher than their carrying amount and therefore the recoverable amount of these entities was not estimated based on the value in use.

Recoverable amount based on value in use

The recoverable amount of individual CGUs was determined based on value in use of the entities, using the discounted cash flow method based on the most current financial projections, for a period not exceeding 5 years, which are presented in the table below. The discount rates used for testing of the insurance companies were set at the cost of equity level. In the case of medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was set in accordance with the CAPM model. Also, size premiums were applied in justified cases. Risk-free rates were determined based on the average yield of 10-year government bonds offered by the country where the CGU is domiciled and the betas were based on measures of similar listed entities. Market premiums were 5.5% (5.5% in 2016). For regulated entities (banks and insurance companies), the projected cash flows incorporate the requirement to maintain an adequate level of own funds (economic capital). Cash flows of the mass insurance segment were calculated based on the amount of hypothetical dividends that the segment could have paid if it had operated as a separate insurance company. The amount of dividends depends on the projected technical results of that segment, net of income tax and levy on financial institutions and capital surpluses allocated to that segment as at the balance sheet date and in subsequent periods. The growth ratios after the projection period were determined while taking into account the long term growth prospects for the market on which the entity conducts its business. In the case of insurance companies operating in the Baltic states, an adjustment was made for the expected increase in the insurance penetration rate (insurance premiums expressed as % of GDP) at 0.2-0.3 pp. In all the other cases, growth rates do not exceed the long-term GDP growth forecasts of the country in nominal terms.

(in millions of PLN)

Cash generating unit	31 December 2017			31 December 2016		
	Discount rate	Growth rate after the projection period	Timeframe of financial projections	Discount rate	Growth rate after the projection period	Timeframe of financial projections
Lietuvos Draudimas AB [1)]	5.4%	3.7%	5 years	5.3%	3.7%	5 years
AAS Balta	6.2%	3.8%	5 years	5.7%	3.8%	5 years
Mass insurance segment [2)]	8.2%	2.5%	3 years	7.8%	2.5%	4 years
Medical companies	7.1%	2.0-3.0%	3-5 years	6.6%	2.0-3.0%	4 years

Recoverable amount is based on fair value less costs of disposal

The recoverable amount of Alior Bank and Pekao was calculated based on the fair value less costs of disposal. The fair value was calculated based on the stock price of Alior Bank and Pekao as quoted on the WSE on the balance sheet date plus control premium of, respectively, 10% and 5%. The costs of disposal were considered to be insignificant.

Sensitivity analysis

The following table presents the surplus of recoverable amounts over carrying amounts and the maximum discount rates and minimum marginal growth rates after the projection period, at which the carrying amounts and recoverable amounts of the individual CGUs are equal.

Cash generating unit	31 December 2017			31 December 2016		
	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period	Surplus (PLN million)	Marginal value of the discount rate	Marginal value of the growth rate after the projection period
Lietuvos Draudimas AB	1,283	7.3%	0.9%	2,044	8.6%	(4.0%)
AAS Balta	439	11.2%	3.2%	978	16.2%	(62.5%)
Mass insurance segment [1)]	8,204	37.5%	n/a [2)]	4,197	17.6%	(48.3%)
Medical companies	75	7.6-17.4%	(24.2%)-2,5%	87	6.9-12.5%	(5.2%)-2,7%

[1)] Surplus of the recoverable amount of the mass insurance segment over its carrying amount, including the Link4 acquisition goodwill allocation allocated to that segment. Starting from 2017, a new model of capital allocation was introduced, which reduced the amount of capital allocated to the mass insurance segment and consequently increased the surplus. Data as at 31 December 2016 have been restated using the new allocation method to ensure comparability. The presented increase in the surplus is a result of the total effect of the assumed higher profitability of the segment and capital allocation.
[2)] The amount of discounted cash flows in the projection period is higher than the carrying amount attributed to the mass insurance segment and therefore no marginal growth rate was presented after the projection period.

(in millions of PLN)

The following table shows the surplus of recoverable amounts over carrying amounts and the decreases in fair value that would make the carrying amounts equal to the recoverable amounts of the entities, where the recoverable amounts were determined at fair value less costs to sell.

Cash generating unit	Surplus[1)] (PLN million)	Marginal decline in fair value
Pekao	4,443	(12.4%)
Alior Bank	2,544	(22.5%)

[1)] Surplus of the recoverable amount of the CGU over the carrying amount (100% of the consolidated net assets of Alior Bank with Bank BPH's Core Business), with goodwill applicable to Alior Bank only allocated to the CGU.

27. Intangible assets

27.1 Accounting policy

Intangible assets are recognized if they are identifiable, controlled and it is likely that future economic benefits will be achieved, which can be ascribed to a specific assets and the purchase price or production cost of the asset can be measured reliably.

Intangible assets are measured at purchase prices or production costs less amortization charges and impairment losses.

The method used to measure the fair value of an intangible asset acquired in a business combination is presented in section 5.6.

Intangible assets include in particular: computer software, economic copyrights, licenses and concessions, as well as assets acquired in business combinations: trademarks, customer relations (including core deposit intangibles), relations with brokers, future profit from the purchased portfolio of insurance contracts, etc.

Intangible assets are amortized over their estimated economic life:

- assets other than intangible assets acquired in a business combination – using a straight-line method for the period of two to five years. In justified cases, after a case-by-case analysis, a different amortization rate may be used corresponding to the expected useful life of the intangible asset. Since a decision was made that the planned useful life of the Platforma Everest product system in PZU would be 10 years, the annual amortization rate of 10% was adopted for the system.
- intangible assets acquired in a business combination (except for the acquired trademarks) – for the period of one to fifteen years, based on the value of profits generated in the respective years;
- trademarks acquired in a business combination, as intangible assets with a useful period determined as indefinite are not amortized, but at the end of each financial year and any time there are any indications of impairment, they are tested for impairment.

Amortization is charged to "Other operating expenses" in the consolidated profit and loss account.

Impairment

At the end of the reporting period, assets are reviewed to determine whether there are any indications of impairment.

Impairment loss on an intangible asset is deemed to have occurred if the expected economic benefits associated with an intangible asset or a property, plant and equipment item decrease as a result of technological changes, decommissioning, withdrawal from use or occurrence of other indications that the usefulness of the asset is reduced.

If such indications are identified, the asset is tested for impairment in order to determine its recoverable amount. The impairment test for future profit from the purchased portfolio of insurance contracts is performed in conjunction with the provision adequacy test, as described in section 38. Where necessary, an impairment loss is recognized to the recoverable amount. In the situation when an asset does not generate cash flows that would be largely independent from cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of assets generating independent cash flows, to which the asset belongs. The possible impairment losses are recognized as cost in the consolidated profit and loss account under "Other operating expenses".

(in millions of PLN)

If there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased then the recoverable amount of such an asset is estimated. The impairment loss recognized in previous periods is reversed to the recoverable amount that does not exceed its carrying amount that would have been determined (net of amortization) had the impairment loss not previously been recognized. Reversal of an impairment loss is recognized as revenue in the in the consolidated profit and loss account under "Other operating income".

27.2 Quantitative data

Movement in intangible assets (by type groups) in the year ended 31 December 2017

	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	1,509	274	623	177	68	2,651
Changes (by virtue of):	803	333	1,268	82	7	2,493
- purchases and in-house production	122	-	-	247	2	371
- change in composition of the group	472	340	1,285	64	10	2,171
- transfers	240	-	-	(241)	1	-
- sale and liquidation	(22)	-	-	-	(4)	(26)
- foreign exchange differences and other	(9)	(7)	(17)	12	(2)	(23)
Gross value at the end of the period	**2,312**	**607**	**1,891**	**259**	**75**	**5,144**
Accumulated amortization at the beginning of the period	(772)	-	(345)	-	(49)	(1,166)
Changes (by virtue of):	(245)	-	(264)	-	(4)	(513)
- amortization for the period	(269)	-	(278)	-	(9)	(556)
- sale and liquidation	22	-	-	-	4	26
- foreign exchange differences and other	2	-	14	-	1	17
Accumulated amortization at the end of the period	**(1,017)**	**-**	**(609)**	**-**	**(53)**	**(1,679)**
Impairment losses at the beginning of the period	(16)	-	-	-	(6)	(22)
Changes charged to other operating expenses	-	-	-	(11)	5	(6)
Other changes	3	-	-	3	-	6
Impairment loss – at the end of the period	**(13)**	**-**	**-**	**(8)**	**(1)**	**(22)**
Net value of intangible assets at the end of the period	**1,282**	**607**	**1,282**	**251**	**21**	**3,443**

(in millions of PLN)

Movement in intangible assets (by type groups) in the year ended 31 December 2016

	Software, licenses and similar assets	Trademarks	Client relations	Intangible assets under development	Other intangible assets	Total intangible assets
Gross value at the beginning of the period	1,269	269	573	175	60	2,346
Changes (by virtue of):	240	5	50	2	8	305
- purchases and in-house production	38	-	-	215	2	255
- change in composition of the group	46	-	42	2	-	90
- transfers	177	-	-	(179)	2	-
- sale and liquidation	(22)	-	-	(19)	-	(41)
- foreign exchange differences and other	1	5	8	(17)	4	1
Gross value at the end of the period	**1,509**	**274**	**623**	**177**	**68**	**2,651**
Accumulated amortization at the beginning of the period	(656)	-	(248)	-	(38)	(942)
Changes (by virtue of):	(116)	-	(97)	-	(11)	(224)
- amortization for the period	(137)	-	(90)	-	(9)	(236)
- sale and liquidation	22	-	-	-	-	22
- foreign exchange differences and other	(1)	-	(7)	-	(2)	(10)
Accumulated amortization at the end of the period	**(772)**	**-**	**(345)**	**-**	**(49)**	**(1,166)**
Impairment losses at the beginning of the period	(8)	-	-	(3)	-	(11)
Changes charged to other operating expenses	(9)	-	-	-	(6)	(15)
Other changes	1	-	-	3	-	4
Impairment loss – at the end of the period	**(16)**	**-**	**-**	**-**	**(6)**	**(22)**
Net value of intangible assets at the end of the period	**721**	**274**	**278**	**177**	**13**	**1,463**

Trademarks, which are intangible assets with an indefinite period of useful life, were subject to an impairment test together with the CGUs to which they belong. The tests have shown no need to recognize impairment losses. Additional information about the tests is presented in section 26.3.

Amortization of intangible assets, by their presentation in consolidated profit and loss account	**1 January – 31 December 2017**	**1 January – 31 December 2016**
Claims, benefits and movement in technical provisions	31	24
Acquisition expenses	34	34
Administrative expenses	210	88
Other operating expenses [1)]	281	90
Total amortization	**556**	**236**

[1)] Including the amortization of intangible assets purchased in the business acquisitions in the amount of PLN 278 million (PLN 90 million in 2016).

(in millions of PLN)

28. Other assets

Other assets	31 December 2017	31 December 2016 (restated)
Reinsurance settlements	157	403
Estimated salvage and subrogation	192	161
Deferred IT expenses	63	41
Accrued direct claims handling receivables	60	49
Inventories	73	114
Accruals under insurance contracts (outside of the PZU Group)	58	-
Other assets	89	98
Total other assets	**692**	**866**

Other assets	31 December 2017	31 December 2016 (restated)
Short-term	591	784
Long-term	101	82
Total other assets	**692**	**866**

29. Deferred acquisition costs

29.1 Accounting policy

Deferred acquisition costs are tested for impairment since that they are included in the calculation of adequacy of technical provisions.

29.1.1. Non-life insurance

Acquisition expenses in non-life insurance are deferred in line with the principles applicable to the determination of the provision for unearned premiums by amortizing them through the profit and loss account during the indemnity period (recognized under "Acquisition expenses").

Deferrals apply to acquisition commissions and a portion of indirect acquisition expenses related to the signing and renewals of insurance policies, in particular costs related directly to sales processes, which cannot be classified as direct acquisition expenses, in particular costs of activities related to: agreement origination processes and underwriting processes in sales units (separated by using working time questionnaires), automatic and manual entry of policies into production systems (registration of sales) and contact center operations related to the sales of policies.

29.1.2. Life insurance

In life insurance, for traditional profit-sharing products (life and endowment insurance or birth assurance), acquisition expenses are amortized over time using the Zillmer method.

(in millions of PLN)

29.2 Quantitative data

Deferred acquisition costs	31 December 2017	31 December 2016
Short-term	1,392	1,320
Long-term	93	87
Total deferred acquisition costs	**1,485**	**1,407**

Movement in deferred acquisition costs	1 January – 31 December 2017	1 January – 31 December 2016
Net value at the beginning of the period	1,407	1,154
Non-life insurance	1,323	1,078
Life insurance	84	76
Acquisition expenses pertaining to future periods	1,597	1,455
Amortization for the period recognized in financial result	(1,510)	(1,206)
Foreign exchange differences	(9)	4
Net value at the end of the period	**1,485**	**1,407**
Non-life insurance	1,394	1,323
Life insurance	91	84

30. Property, plant and equipment

30.1 Accounting policy

Property, plant and equipment components are measured at purchase price or production cost less accumulated depreciation and impairment losses.

All property, plant and equipment components and their important components are depreciated, with the exception of land and property, plant and equipment in construction. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the intended manner.

Annual depreciation rates for material assets are presented below:

Asset category	Rate
Cooperative ownership rights to apartments, cooperative rights to commercial premises	2.5%
Buildings and structures	1.5% - 10%
Machinery and technical equipment	10% - 40%
Means of transport	14% - 33%
IT hardware	20% - 40%
Other non-current assets	7% - 20%

Assets held under a finance lease contract are depreciated over their useful life, provided that there is rational certainty that they would be purchased or ownership transferred. Otherwise, they are depreciated for a period no longer than the term of the lease.

The principles for recognizing impairment losses are the same as those applicable to intangible assets that are described in section 27.1.

(in millions of PLN)

30.2 Quantitative data

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2017

	Plant and machinery	Means of transport	Property, plant and equipment under construction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	688	153	65	1,295	379	2,580
Changes (by virtue of):	326	51	116	1,420	64	1,977
- purchases and in-house production	65	12	200	10	39	326
- change in composition of the group	268	42	65	1,242	40	1,657
- sale and liquidation	(83)	(26)	-	(29)	(17)	(155)
- transfers to categories held for sale under IFRS 5	-	-	-	(4)	-	(4)
- transfers to/from investment property	-	-	-	157	-	157
- transfers	57	4	(118)	40	17	-
- foreign exchange differences and other	19	19	(31)	4	(15)	(4)
Gross value at the end of the period	**1,014**	**204**	**181**	**2,715**	**443**	**4,557**
Accumulated amortization at the beginning of the period	(378)	(65)	-	(399)	(169)	(1,011)
Changes (by virtue of):	(71)	(12)	-	(69)	(48)	(200)
- amortization for the period	(151)	(29)	-	(82)	(66)	(328)
- sale and liquidation	78	18	-	11	11	118
- foreign exchange differences and other	2	(1)	-	2	7	10
Accumulated amortization at the end of the period	**(449)**	**(77)**	**-**	**(468)**	**(217)**	**(1,211)**
Impairment losses at the beginning of the period	(1)	-	(5)	(95)	(1)	(102)
Movements recognized in:	(10)	-	-	10	(11)	(11)
- other operating expenses	(11)	-	-	(2)	(11)	(24)
- other operating income	1	-	-	12	-	13
Other changes	1	-	-	5	-	6
Impairment loss – at the end of the period	**(10)**	**-**	**(5)**	**(80)**	**(12)**	**(107)**
Net value of property, plant and equipment – at the end of the period	**555**	**127**	**176**	**2,167**	**214**	**3,239**

(in millions of PLN)

Movement in property, plant and equipment (by type groups) in the year ended 31 December 2016

	Plant and machinery	Means of transport	Property, plant and equipment under construction	Real estate	Other property, plant and equipment	Total property, plant and equipment
Gross value at the beginning of the period	583	156	61	1,167	311	2,278
Changes (by virtue of):	105	(3)	4	128	68	302
- purchases and in-house production	34	5	65	2	29	135
- change in composition of the group	117	-	3	117	37	274
- sale and liquidation	(85)	(18)	-	(1)	(6)	(110)
- transfers to categories held for sale under IFRS 5	-	-	-	4	-	4
- transfers to/from investment property	-	-	-	(11)	-	(11)
- transfers	36	10	(65)	14	5	-
- foreign exchange differences and other	3	-	1	3	3	10
Gross value at the end of the period	**688**	**153**	**65**	**1,295**	**379**	**2,580**
Accumulated amortization at the beginning of the period	(385)	(56)	-	(369)	(117)	(927)
Changes (by virtue of):	7	(9)	-	(30)	(52)	(84)
- amortization for the period	(68)	(22)	-	(31)	(55)	(176)
- sale and liquidation	79	15	-	-	-	94
- transfers to/from investment property	-	-	-	4	-	4
- foreign exchange differences and other	(4)	(2)	-	(3)	3	(6)
Accumulated amortization at the end of the period	**(378)**	**(65)**	**-**	**(399)**	**(169)**	**(1,011)**
Impairment losses at the beginning of the period	(3)	-	-	(44)	(4)	(51)
Movements recognized in:	2	-	(5)	(50)	2	(51)
- other operating expenses	1	-	(5)	(52)	2	(54)
- other operating income	1	-	-	2	-	3
Other changes:	-	-	-	(1)	1	-
- transfer to investment property	-	-	-	(1)	-	(1)
- other	-	-	-	-	1	1
Impairment loss – at the end of the period	**(1)**	**-**	**(5)**	**(95)**	**(1)**	**(102)**
Net value of property, plant and equipment – at the end of the period	**309**	**88**	**60**	**801**	**209**	**1,467**

"Transfers to and from investment property" items include amounts corresponding to those explained in section 31.

31. Investment property

31.1 Accounting policy

Investment property is held to earn rental income or obtain benefits from increases in value, or both. Investment property is not used in operating activities.

Investment property is initially recognized at purchase price or production cost, plus transaction costs. After initial recognition it is measured at fair value, in accordance with the rules described in section 9.1.5. Gains and losses resulting from the change of fair value of investment property are recognized in the consolidated profit and loss account under "Net movement in fair value of assets and liabilities measured at fair value" item in the period in which they occurred.

If owner-occupied property becomes investment property, depreciation is charged up to the date of reclassification and impairment losses, if any, are recognized and then:

- if the carrying amount determined as at that date is higher than the fair value, the difference is recognized in the consolidated profit and loss account under "Other operating expenses".

(in millions of PLN)

- if the existing carrying amount is lower than the fair value then the difference is first recognized in the consolidated profit and loss account under "Other operating income" as a reversal of the impairment loss (up to the amount of the impairment loss previously recognized, whereby the amount recognized in the consolidated profit and loss account may not exceed the amount of the impairment loss that would have been determined after deducting the accumulated depreciation had no impairment loss been recognized), and the remaining part of the difference - in other comprehensive income under "Reclassification of real property from property, plant and equipment to investment property".

On subsequent disposal of the investment property, revaluation reserve may be transferred to supplementary capital.

31.2 Quantitative data

Investment property	31 December 2017	31 December 2016
Own land	151	145
Perpetual usufruct right to land	3	27
Buildings and structures	2,199	1,565
cooperative ownership right to premises	1	1
Total investment property	**2,354**	**1,738**

Movement in investment property	1 January – 31 December 2017	1 January – 31 December 2016
Net carrying amount at the beginning of the period	1,738	1,172
Additions (by virtue of):	918	446
- purchase	63	138
- change in composition of the group	25	-
- transfers from owner-occupied property	-	13
- transfers from held for sale categories under IFRS 5	830	295
Reductions (by virtue of):	(200)	(13)
- sale and liquidation	(4)	(4)
- transfers to owner-occupied property	(157)	(5)
- transfers to held for sale categories under IFRS 5	(39)	(4)
Gain (loss) on remeasurement to fair value	(101)	133
- through profit or loss	(101)	126
- through other comprehensive income	-	7
Foreign exchange differences	(1)	-
Net carrying amount – at the end of the period	**2,354**	**1,738**

The item "Perpetual usufruct of land" contains the right to use land for up to 99 years. This right may be traded.

The item "transfers from owner-occupied property" contains the value of properties at their carrying amounts (historical cost less accumulated depreciation and impairment losses) as at the date of transfer, which is the date of the change of use.

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2017.

32. Entities measured by the equity method

32.1 Accounting policy

Associates are entities on which significant influence is exerted, or the power to participate in the financial and operating policy decisions of the investee but is not control or joint control.

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

(in millions of PLN)

Associates and joint ventures are measured by the equity method, in which on initial recognition the investment is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associate or joint venture. The share of the PZU Group in the financial result of the associates and joint ventures is recognized in the consolidated profit and loss account under "Share of the net profit of entities measured by the equity method", while share in movement in other comprehensive income under other comprehensive income.

32.2 Quantitative data

Associates	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Name of the entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA	
Nature of PZU's relationship with the entity	Associate – non-strategic		Associate – non-strategic	
Registered office of the entity	Wroclaw	Wroclaw	Tychy	Tychy
Equity stake in the entity	28.31%	28.31%	30.00%	30.00%
Percentage of votes in the entity	25.44%	25.44%	30.00%	30.00%
Measurement method in the consolidated financial statements	Equity method		Equity method	
Accounting standard used by the entity	IFRS		PAS	
Carrying amount of the exposure to the entity	20	37	-	-
Fair value of the exposure to the entity	20	37	None – unquoted entity	None – unquoted entity
Value of dividends received from the entity	-	-	-	-
Key financial highlights				
Assets, including:	285	285	4	4
Short-term assets, including:	46	46	4	3
Cash and cash equivalents	12	11	4	3
Long-term assets	239	239	-	1
Equity	123	142	2	2
Liabilities, including:	162	143	2	2
Short-term liabilities, including:	86	76	2	2
Current financial liabilities	27	28	-	-
Long-term liabilities, including:	76	67	-	-
Long-term financial liabilities	59	50	-	-
Revenues on core business	312	278	2	2
Depreciation and amortization	15	14	-	-
Interest income	-	-	-	-
Interest expense	5	3	-	-
Income tax	1	2	-	-
Comprehensive income, incl.:	(8)	(11)	-	-
Net financial result, including:	(8)	(11)	-	-
Net financial result on continuing operations	(8)	(11)	-	-
Net financial result on discontinued operations	-	-	-	-
Other comprehensive income	-	-	-	-

There are no restrictions (e.g. resulting from any findings regarding borrowings, regulatory requirements or agreements) as to the ability of transferring funds by the associates in the form of cash dividends.

(in millions of PLN)

Reconciliation of measurement of EMC	1 January – 31 December 2017	1 January – 31 December 2016
Net assets of EMC	123	142
Non-controlling interest in EMC's accounts	(8)	(8)
Goodwill in EMC's accounts at the moment significant influence was obtained	(1)	(1)
Net assets of EMC accepted for measurement by the equity method	114	133
PZU Group's share in EMC's capital	33	38
Goodwill	29	29
Impairment loss	(42)	(30)
Carrying amount	**20**	**37**

32.3 Testing for impairment

At the end of each financial year and any time there are any indications of impairment, shares in associates and joint ventures are tested for impairment. The test involves assessing the recoverable amount of the individual entities and comparing it to the carrying amount (including goodwill). If the recoverable amount is lower then the impairment loss applies first to goodwill.

The impairment test performed as at 31 December 2017 showed the need to recognize an impairment loss for EMC shares in the amount of PLN 12 million. The recoverable amount was determined on the basis of value in use.

33. Financial assets

33.1 Accounting policy

Recognition and classification

Financial assets are recognized in the statement of financial position at the moment when a PZU Group company becomes a party to a binding contract, under which it assumes risk and becomes a beneficiary of the benefits associated with the financial instrument. In the case of transactions concluded on an organized market, the purchase or sale of financial assets are recognized in the books on the date of the transaction.

Financial instruments are classified upon purchase to one of four categories: held to maturity, available for sale, at fair value through profit or loss, or loans. Upon purchase, financial instruments are initially recognized at fair value adjusted by transaction costs that may be linked directly to the purchase or issue of that financial instrument. Financial assets at fair value through profit or loss are an exception, since transaction costs applicable to them are deducted once from the "Net investment income" item. The fair value of a financial instrument at initial recognition is usually its transaction price, unless the nature of the financial instrument suggests otherwise.

In the case of interest-bearing financial instruments, interest accrues from the day following the transaction settlement date.

Principles of measurement

The principles of measurement of the individual financial instrument categories are presented in subsequent sections:

Derecognition from statement of financial position

Financial assets are derecognized from the consolidated statement of financial position when the contractual rights to receive cash flows of the asset expire or are transferred to another entity. The transfer also occurs if the contractual rights to receive the cash flows of the financial asset are retained, but a contractual obligation to transfer such cash flows to a non-PZU Group entity is accepted.

(in millions of PLN)

When a financial asset is transferred, the extent to which it retains the risks and rewards of ownership of the asset is evaluated.

- if substantially all the risks and rewards of ownership of the financial asset are transferred, the financial asset should be derecognized from the consolidated statement of financial position;
- if substantially all the risks and rewards of ownership of the financial asset are retained, the financial assets should continue to be recognized in the consolidated statement of financial position;
- if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, the entity determines whether it has retained control of the financial asset.

If control is retained then the financial asset is recognized in the consolidated statement of financial position up to the amount arising from permanent exposure; if there is no control then the financial asset is derecognized from the consolidated statement of financial position.

33.2 Financial assets held to maturity

Financial assets held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity that were purchased by the PZU Group with the positive intention and ability to hold to maturity.

Financial assets held to maturity are measured at amortized cost and the measurement results are recognized under "Net investment income".

Information on the rules for recognizing impairment losses is presented in section 33.6.2.

Due to a change in the purpose of use of certain assets, from 1 January 2015 some of the assets were reclassified from assets available for sale to assets held to maturity. The carrying amount of the assets at the time of reclassification was PLN 84 million. The carrying amount as at 31 December 2017 is PLN 79 million.

The transfer described above was the sole reclassification of financial instruments from groups carried at fair value to groups carried at cost or amortized cost effected in years 2015-2017.

Financial assets held to maturity	31 December 2017	31 December 2016
Debt securities	21,237	17,346
Government securities	21,006	17,117
Domestic	20,641	16,741
Fixed rate	19,277	15,793
Floating rate	1,364	948
Foreign	365	376
Fixed rate	365	376
Other	231	229
Quoted on a regulated market	102	103
Fixed rate	102	103
Not quoted on a regulated market	129	126
Fixed rate	31	-
Floating rate	98	126
Total financial assets held to maturity	**21,237**	**17,346**

33.3 Financial assets available for sale

Financial instruments available for sale include financial instruments not classified in other categories.

Instruments included in this category are measured at fair value, in accordance with the rules described in section 9.1. The difference between the fair value at the end of the reporting period and the purchase price is recognized directly in revaluation reserve. In the case of debt securities, interest calculated using an effective interest rate is recognized under "Net investment income", while the difference between the fair value and amortized cost value is recognized in revaluation reserve.

(in millions of PLN)

If financial instruments available for sale are sold then the revaluation capital attributable to them is derecognized and posted under "Net result on realization and impairment losses on financial assets".

Financial assets available for sale	**31 December 2017**	**31 December 2016** (restated)
Equity instruments	664	434
Quoted on a regulated market	262	132
Not quoted on a regulated market	402	302
Debt securities	47,855	11,218
Government securities	33,649	7,981
Domestic	32,547	7,592
Fixed rate	20,753	5,144
Floating rate	11,794	2,448
Foreign	1,102	389
Fixed rate	1,102	389
Other	14,206	3,237
Quoted on a regulated market	694	37
Fixed rate	694	37
Not quoted on a regulated market	13,512	3,200
Fixed rate [1)]	13,077	2,611
Floating rate	435	589
Total financial instruments available for sale	**48,519**	**11,652**

[1)] including NBP money bills of PLN 13,066 million (PLN 2,600 million as at 31 December 2016).

33.4 Financial assets at fair value through profit or loss

Financial instruments measured at fair value through profit or loss include:

- financial instruments held for trading – assets purchased to be sold in a near future or liabilities incurred to be repurchased in near future and derivatives, which are not designated as effective hedges;
- financial instruments classified upon purchase to categories measured at fair value through profit or loss, if their fair value can be estimated reliably. Such financial instruments include:
  - certain instruments designated to cover technical provisions and investment contracts in life insurance. The accepted classification of the instruments eliminates or reduces significantly the mismatch with respect to measurement and recognition of liabilities and assets to cover them;
  - financial assets managed and assessed in accordance with a documented risk management strategy based on their fair value;

The rules of measurement to fair value are described in section 9.1. The effect of the change in measurement of financial instruments at fair value, including related interest income and changes in liabilities under investment contracts for the client's account and risk are recognized under "Net movement in fair value of assets and liabilities measured at fair value" in the period to which they relate.

Derivatives are recognized at fair value on the transaction date and subsequently measured at fair value in accordance with the rules described in section 9.1.3.

Derivatives are recognized as financial assets if their fair value is positive or as financial liabilities if it is negative.

Changes of fair value of derivatives that are not hedges are recognized under "Net movement in fair value of assets and liabilities at fair value".

As at 31 December 2017 and 31 December 2016, PZU Group companies were not parties to agreements including embedded derivatives whose character and related risks were not closely linked to the base agreement.

(in millions of PLN)

Financial assets at fair value through profit or loss	31 December 2017	31 December 2016
Assets classified into this category upon first recognition	**6,650**	**14,479**
Equity instruments	1,947	2,951
Quoted on a regulated market	1,781	2,830
Not quoted on a regulated market	166	121
Debt instruments	4,703	11,528
Government securities	4,664	11,437
Domestic	4,351	9,686
Fixed rate	4,054	8,257
Floating rate	297	1,429
Foreign	313	1,751
Fixed rate	313	1,674
Floating rate	-	77
Other	39	91
Quoted on a regulated market	39	91
Fixed rate	39	91
Assets held for trading	**15,597**	**7,403**
Equity instruments	4,617	4,066
Quoted on a regulated market	562	744
Not quoted on a regulated market	4,055	3,322
Debt instruments	8,976	2,456
Government securities	8,699	2,383
Domestic	6,702	1,416
Fixed rate	4,834	1,384
Floating rate	1,868	32
Foreign	1,997	967
Fixed rate	1,964	967
Floating rate	33	-
Other	277	73
Quoted on a regulated market	175	-
Fixed rate	175	-
Not quoted on a regulated market	102	73
Floating rate	102	73
Derivatives	2,004	881
Total financial assets measured at fair value through profit or loss	**22,247**	**21,882**

Additional information on exposure to derivatives and associated risks is presented in section 7.5.3

33.5 Hedge derivatives

33.5.1. Accounting policy

Hedge accounting recognizes is used to recognize the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. Hedge accounting is applied if the following conditions are fulfilled:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows, consistently with the originally documented risk management strategy for that particular hedging relationship;
- in the case of cash flows it is highly probable that a hedged transaction occurs that is exposed to changes in cash flows affecting the profit and loss account;

- the effectiveness of the hedge can be reliably measured, i.e. the cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured;
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

33.5.2. Types of hedging strategies

33.5.2.1. Fair value hedges

Changes in the fair value measurement of financial instruments designated as hedged items are recognized, in the part related to the hedged risk, in the profit and loss account. The remaining part of changes in the carrying amount are recognized in accordance with the general rules applicable to a given class of financial instruments.

Changes in the fair value measurement of derivatives designated as hedges in hedge accounting are recognized in full in profit and loss, in the same line item where the effect of changes in the measurement of the hedged item are recognized.

The PZU Group ceases to apply hedge accounting if the hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the hedging strategy), if the hedge no longer meets the hedge accounting criteria or the hedging designation is revoked.

Adjustment for hedged risk on the hedged interest item is amortized to profit and loss no later than at the moment when hedge accounting is discontinued.

33.5.2.2. Cash flow hedges

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable planned transaction and could affect profit or loss.

The result of measurement of the effective part of cash flow hedges is recognized in other comprehensive income. The ineffective part of the hedge is recognized in profit or loss.

33.5.3. Description of hedging designations

Description of hedging relationship	Hedged item	Hedging instruments	Recognition in financial statements	Period in which cash flows are expected
1. Cash flow hedge for variable-rate loans				
Alior Bank hedges the risk of a decrease in its net interest income in a low interest rate scenario in PLN by selling an IRS transaction based on the WIBOR rate.	The hedged item consists of loans granted to customers in PLN, where interest payments are based on WIBOR.	The hedging position consists of IRS transactions in PLN (long position at a fixed rate) under which Alior Bank receives fixed interest flows and pays variable interest. The maturity of the hedging transactions corresponds to the maturities of the loans included in the hedged item.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The interest on IRS transactions and on the hedged loans is recognized in net interest income.	The hedged item is expected to generate cash flows in the period until 15 December 2021.
2. Cash flow hedge for variable-coupon debt securities				
Alior Bank hedges the risk of a decrease in its net interest income in a higher interest rate scenario in PLN by buying an IRS transaction based on the WIBOR 6M rate.	The hedged item consists of subordinated bonds issued by Alior Bank in PLN, under which interest payments are based on the WIBOR 6M rate.	The hedging position consists of IRS transactions in PLN (short position at a fixed rate) under which Alior Bank receives variable interest flows and pays fixed interest. The maturity of the hedging transactions corresponds to the maturities of the bonds included in the hedged item.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The interest on IRS transactions and on the hedged bonds is recognized in net interest income.	The hedged item is expected to generate cash flows in the period until 26 September 2024.
3. Fair value hedge of fixed-coupon debt securities				
Pekao hedges some of its interest rate risk arising from changes in the fair value of the hedged item caused by volatility of market swap interest rates through IRS transactions.	The hedged item consists of fixed-coupon debt securities classified as available for sale and denominated in PLN, EUR and USD.	The hedging position consists of IRS transactions in PLN, EUR and USD (short position at a fixed rate) under which Pekao receives variable cash flows and pays fixed interest.	The result on fair value measurement of the hedged items, related to the hedged part of the risk, is recognized in result on fair value hedge accounting. The remaining part of the fair value change (resulting from the spread between the swap curve and the bond curve) is recognized on general terms applicable to AFS instruments (i e. in revaluation reserve). Interest on the debt securities are recognized in net interest income. The change in fair value measurement of derivatives subject to fair value hedge accounting is presented in the result on fair value hedge accounting. Interest on derivatives subject to fair value hedge accounting is recognized in net interest income.	The hedged item is expected to generate cash flows in the period up to 18 January 2036.

Description of hedging relationship	Hedged item	Hedging instruments	Recognition in financial statements	Period in which cash flows are expected
4. Cash flow hedge for variable-rate loans and deposits				
Pekao hedges part of its interest rate risk and FX risk arising from the variability of cash flows from variable-rate assets and liabilities through CIRS (basis swap) transactions.	The hedged item consists of two separate components, which are cash flows from a variable-rate asset portfolio and a variable-rate liability portfolio.	The hedging position is the portfolio of CIRS (basis swap) transactions, under which the Group pays variable-rate flows in foreign currencies and receives variable-rate cash flows in PLN/foreign currencies. CIRS transactions are decomposed into a component hedging the asset portfolio and a component hedging the liability portfolio.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The interest on CIRS transactions and on the hedged items is recognized in net interest income.	The hedged item is expected to generate cash flows in the period up to 15 May 2029.
5. Cash flow hedge for variable-rate financial assets				
Pekao hedges part of its interest rate risk arising from the variability of cash flows from variable-rate assets through IRS transactions.	The hedged item are cash flows from a variable-rate asset portfolio.	The hedging position is the portfolio of IRS transactions (short position at a variable rate), under which the Group receives fixed flows and pays variable flows.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The interest on IRS transactions and on the hedged items is recognized in net interest income.	The hedged item is expected to generate cash flows in the period up to 29 April 2020.
6. Cash flow hedge for variable-rate FX loans hedged with fx-swap transactions for FX and interest rate risk				
Pekao hedges the variability of cash flows constituting variable-rate financial assets (loans granted in EUR and USD) through fx-swap transactions , hedging foreign exchange risk and interest rate risk.	The hedged item consists of variable-rate loans denominated in euro and US dollars.	The hedging position consists of the portfolio of fx-swap transactions.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The settled portion of swap points on the hedging instrument is transferred from revaluation reserve and recognized in net interest income. The currency revaluation of the first exchange of capital for the hedging instrument is transferred from revaluation reserve and recognized in foreign exchange differences in the profit and loss account.	The hedged item is expected to generate cash flows in the period up to 12 October 2018.

(in millions of PLN)

Description of hedging relationship	Hedged item	Hedging instruments	Recognition in financial statements	Period in which cash flows are expected
7. Fair value hedge of fixed-coupon debt securities				
Pekao hedges some of its interest rate risk arising from changes in the fair value of the hedged item caused by volatility of market swap interest rates through IRS transactions.	The hedged item consists of fixed-coupon debt securities classified as loans denominated in PLN.	The hedging position consists of IRS transactions in PLN (short position at a fixed rate) under which the Group receives variable cash flows and pays fixed interest.	The result on fair value measurement of the hedged items, related to the hedged part of the risk, is recognized in result on fair value hedge accounting. Interest on the debt securities are recognized in net interest income. The change in fair value measurement of derivatives subject to fair value hedge accounting is presented in the result on fair value hedge accounting. Interest on derivatives subject to fair value hedge accounting is recognized in net interest income.	The hedged item is expected to generate cash flows in the period until 22 December 2026.
8. Cash flow hedge for expected future outflow in a foreign currency – designation completed				
Pekao hedged the variability of cash flows in EUR, that comprised projected cash outflows from an expected future sale transaction, using fx-forward transactions. The FX risk was hedged.	The hedged item consisted of projected cash outflows from an expected future purchase transaction, the level of which depended on the EUR/PLN exchange rate.	The hedging position consisted of a portfolio of fx-forward transactions (composed of a fx-spot transaction and a series of fx-swap transactions), under which the Group purchased EUR in exchange for PLN, to be executed on 11 December 2017 at the agreed exchange rate.	The settlement amount of the hedging transactions adjusted the settlement of the hedged item.	-
9. Cash flow hedge for variable-rate PLN deposits				
Pekao hedges part of its interest rate risk arising from the variability of cash flows from variable-rate deposits through IRS transactions.	The hedged item are cash flows from a variable-rate deposit portfolio.	The hedging position is the portfolio of IRS transactions (short position at a fixed rate), under which the Group receives variable cash flows and pays fixed flows.	The effective part of the change in fair value measurement of the hedging transactions is recognized in the revaluation reserve. The ineffective part of the change in fair value measurement of the hedging transactions is presented in the result on financial instruments held for trading. The interest on IRS transactions and on the hedged items is recognized in net interest income.	The hedged item is expected to generate cash flows in the period until 22 June 2032.

33.5.4. Quantitative data

Fair value of hedging instruments as at 31 December 2017	Assets	Liabilities
Fair value hedge accounting	16	186
interest rate swaps (IRS)	16	186
Cash flow hedge accounting	331	682
interest rate swaps (IRS)	289	7
currency interest rate swaps (CIRS)	-	675
currency swaps (FX-Swap)	42	-
Total	**347**	**868**

Fair value of hedging instruments as at 31 December 2016	Assets	Liabilities
Cash flow hedge accounting	72	6
interest rate swaps (IRS)	72	6
Total	**72**	**6**

(in millions of PLN)

Cash flow hedge amounts recognized in the profit and loss account under revaluation reserve	31 December 2017	31 December 2016
Revaluation reserve (deferral of changes in fair value of hedging financial instruments in the part recognized as effective hedge - gross)	11	(31)
Net interest income on hedging derivatives	73	17
Ineffective part of the change in fair value measurement of the hedging transactions presented in profit and loss	3	-

Fair value hedge amounts recognized in the profit and loss account – type of result	31 December 2017	31 December 2016
Result on fair value changes of the hedging instrument	(51)	-
Result on fair value changes of the hedged item attributable to the hedged risk	(48)	-
Result on fair value hedge accounting	**3**	**-**
Net interest income on hedging derivatives	(36)	-

33.6 Loans

33.6.1. Accounting policy

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- financial assets that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- financial assets those that the entity upon initial recognition designates as available for sale;
- financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and other receivables include in particular:

- payment transferred for debt securities purchased under a contract under which the seller retained substantially all the risks and rewards of ownership of the securities (*buy-sell-back* and *reverse repo* transactions);
- Debt securities not quoted on an active market;
- term deposits with credit institutions;
- loans granted;
- loan receivables from clients
- receivables under concluded insurance contracts (including reinsurance);
- other receivables.

Loans and other receivables, with the exception of receivables under concluded insurance contracts and other short-term receivables, are measured at the end of the reporting period at amortized cost.

Because of their nature, receivables under concluded insurance contracts and other short-term receivables are measured at their nominal value, while taking into account impairment losses on doubtful debts (the method used to estimate these impairment losses for insurance receivables is presented in section 33.7.2.2).

The result of remeasurement of loans and other receivables to amortized cost is recognized under "Net investment income".

33.6.2. Estimates and assumptions

For all on-balance sheet credit exposures (groups of on-balance sheet credit exposures) an assessment is made to identify objective indications of impairment, according to the most recent data at the remeasurement date. In order to calculate an impairment loss amount, the estimated amounts and timing of future cash flows must be assessed. The estimates are based on assumptions about many factors, so the actual results may differ. As a result, the impairment loss amount may be subject to change in the future.

(in millions of PLN)

Individual assessment is required for impaired exposures that exceed the accepted materiality or exposure thresholds, for which a group of assets with similar credit risk characteristics cannot be identified or where the sample is too small to estimate the group's parameters.

Individual measurement consists in a case-by-case verification whether a credit exposure is impaired and projection of future cash flows, including cash flows from seizure of collateral less cost to seize and sell, or from other repayment sources. The value of recoveries expected in individual measurements are regularly compared with actual recoveries.

Group measurement is based on the time over which an exposure remains in an impaired state; it considers the specificity of the group in terms of expected recoveries. Collateral is taken into account at the exposure level.

Credit exposures, for which no individual indications of impairment have been identified, are grouped in accordance with the risk profile homogeneity principle and a provision is recognized for the entire group of exposures to cover losses incurred but not reported (IBNR).

Impairment losses for assets held to maturity and loans are calculated at the difference between the carrying amount of the assets and the present value of estimated future cash flows discounted by the effective interest rate determined on initial recognition (initial effective interest rate).

If an impairment loss amount decreases in a subsequent periods a result of an event that occurred after the impairment, the previously recognized impairment loss is reversed through an adjustment of the balance of impairment losses. The amount of the reversal is posted to the profit and loss account under "Net result on realization and impairment losses on investments".

33.6.3. Quantitative data

Loans	31 December 2017	31 December 2016 (restated)
Debt securities	**13,623**	**2,463**
Government securities	1	2
Foreign	1	2
Fixed rate	1	2
Other	13,622	2,461
Quoted on a regulated market	977	-
Fixed rate	281	-
Floating rate	696	-
Not quoted on a regulated market	12,645	2,461
Fixed rate	1,181	-
Floating rate	11,464	2,461
Other, including:	**175,881**	**51,871**
Loan receivables from clients	169,457	44,998
Buy-sell-back transactions	885	2,880
Term deposits with credit institutions	1,841	2,285
Loans	3,698	1,708
Total loans	**189,504**	**54,334**

(in millions of PLN)

Loan receivables from clients	31 December 2017	31 December 2016 (restated)
Retail segment	**89,407**	**25,303**
Operating loans	278	294
Consumer finance	26,185	13,859
Consumer finance loans	2,129	1,222
Loan to purchase securities	109	125
Overdrafts in credit card accounts	1,297	970
Loans for residential real estate	58,456	7,969
Other mortgage loans	832	813
Other receivables	121	51
Business segment	**80,050**	**19,695**
Operating loans	33,879	10,838
Car financing loans	80	132
Investment loans	26,108	7,468
Receivables purchased (factoring)	4,576	794
Overdrafts in credit card accounts	179	-
Loans for residential real estate	24	-
Other mortgage loans	8,465	-
Finance leases	5,086	281
Other receivables	1,653	182
Total receivables from clients on account of loans	**169,457**	**44,998**

Loan receivables from clients – outstanding	31 December 2017	31 December 2016
Unimpaired receivables	159,115	39,930
Retail segment	84,540	22,434
Business segment	74,575	17,496
Impaired receivables	1,869	523
Total	**160,984**	**40,453**

Past due receivables	31 December 2017	31 December 2016
Unimpaired receivables	5,003	2,977
Up to 30 days	3,456	2,187
30-60 days	944	537
Over 60 days	603	253
Impaired receivables	3,470	1,568
Up to 30 days	137	173
1 to 3 months	201	137
3 to 12 months	894	522
1 to 5 years	1,562	722
Over 5 years	676	14
Total	**8,473**	**4,545**

33.7 Impairment of financial assets and receivables

33.7.1. Accounting policy

An assessment is performed at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence of impairment arising from loss events that occurred after the initial recognition of financial assets and causing a decrease in expected future cash flows then appropriate impairment losses are recognized against costs of the current period. Losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence of impairment includes information about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider (forbearance);
- it becoming probable that the borrower will enter liquidation, bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments or
  - adverse changes in the economic condition in a specific industry, region, etc. contributing to the deterioration of the debtors' capacity for repayment;
- significant or prolonged decline in the fair value of investments in an equity instrument below the purchase cost (additional information is presented in section 33.7.2.1);
- adverse changes in the technology, market, economic, legal or other environment in which the issuer of an equity instrument operates indicating that costs of investment in that equity instrument may not be recovered.

The evidence of impairment for credit exposures may be divided into evidence relating to:

- the client, including:
  - individual client – consumer bankruptcy, death, lack of information about the customer's whereabouts, loss of employment, client's financial problems;
  - business client – receivership, bankruptcy/liquidation, significant deterioration of internal scoring/rating, significant deterioration of the economic and financial standing;
  - both individual and business clients – significant delay in payment or unauthorized debit, client's assets not being disclosed.
- account – launch of court proceedings, launch of enforcement proceedings, effective termination of the agreement, restructuring, exposure challenged by the debtor through litigation, identified fraud.

If there no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics, which are collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss has been recognized are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Exposures for which evidence of impairment has been identified are divided into exposures measured individually and measured collectively in groups.

If evidence of impairment is identified for financial instruments available for sale then the losses previously recognized in the revaluation reserve are charged to profit or loss.

Impairment losses on financial instruments available for sale charged to profit or loss:

- in the case of equity instruments they cannot be reversed;
- in the case of debt instruments they can be reversed if, in a subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

33.7.2. Estimates and assumptions

33.7.2.1. Equity instruments quoted on regulated markets and participation units and investment certificates in mutual funds

Impairment losses for equity instruments quoted on regulated markets, participation units in open-end mutual funds and closed-end mutual fund certificates classified as available for sale are recognized if at least one of the two conditions is met:

- the negative difference between the present value and the purchase value is at least 30% of the purchase value;
- at the end of each of the consecutive 12 months, the value of the asset was lower than the purchase value.

33.7.2.2. Receivables from policyholders

Receivables from policyholders are reviewed to determine whether any evidence of impairment exists.

Specific impairment loss is estimated first. A specific impairment loss is recognized for an individual receivable after the assessment of the debtor's economic and property standing and the probability of repayment of the receivables.

In the case of receivables from debtors against whom liquidation or bankruptcy proceedings have been launched, the impairment loss is recognized up to the amount of the receivable that is not covered by a guarantee or other collateral. If a petition for the debtor's bankruptcy has been dismissed and the debtor's assets are not sufficient to cover the costs of the bankruptcy procedure, the impairment loss is recognized at the full amount of the receivable.

A specific impairment loss is increased if information is received that the estimated recoverable amount has fallen or the amount of receivables for which the impairment loss was recognized, has increased. A previously recognized specific impairment loss is reversed if it is estimated that the recoverable amount is higher than it was previously estimated or if full or partial payment of the receivable amount has been confirmed. A specific impairment loss is used if the receivable has been forgiven or written down in full.

To the extent that no individual assessment has been made, a collective assessment of impairment of receivables is conducted, as a result of which a group impairment loss is estimated.

Non-life insurance

The group impairment loss is estimated on the basis of the assumed model for assessing impairment of individually insignificant receivables. In the model, the impairment loss is determined by assessing impairment of receivables from policyholders grouped by similar credit risk characteristics.

For matured receivables, an age structure is prepared, depending on the past due period. Matured receivables are reduced by the value of receivables covered by a specific impairment loss. A group impairment loss is calculated in separate ranges of past due periods, based on the uncollectibility ratios determined through historical analysis.

For receivables before maturity, the value of the receivable that is likely to become due is determined based on a historical analysis of the percentage of the ratio of receivables that are not paid before maturity. The receivables amount calculated in this manner is reduced by the value of receivables covered by the specific impairment loss. Then, on the remaining amount of receivables, an impairment loss is recognized in the amount corresponding to the uncollectibility ratio of matured receivables for the shortest past due period.

(in millions of PLN)

33.7.3. Quantitative data

Movement in impairment losses for financial assets in the year ended 31 December 2017	Beginning of the period	Recognition captured in profit or loss	Reversal captured in profit or loss	Derecognition (sale, write-down etc.)	Change in the composi-tion of the Group	Other changes	End of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	-	-	1
Financial assets available for sale	**54**	**-**	**(7)**	**(13)**	**-**	**-**	**34**
Equity instruments	47	-	-	(13)	-	-	34
Debt securities	7	-	(7)	-	-	-	-
Loans	**3,149**	**3,791**	**(2,653)**	**(1,149)**	**5,837**	**(20)**	**8,955**
Debt securities	71	7	(56)	(27)	104	(1)	98
Loan receivables from clients	3,062	3,784	(2,597)	(1,107)	5,716	(19)	8,839
Term deposits with credit institutions	1	-	-	-	17	-	18
Loans	15	-	-	(15)	-		-
Receivables	**591**	**151**	**(87)**	**(21)**	**16**	**(1)**	**649**
Receivables on direct insurance	562	145	(82)	(20)	-	(1)	604
Reinsurance receivables	8	4	(4)	(1)	-		7
Other receivables	21	2	(1)	-	16	-	38
Reinsurers' share in technical provisions	**9**	**9**	**(6)**	**-**	**-**	**-**	**12**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Total	**3,805**	**3,951**	**(2,753)**	**(1,183)**	**5,853**	**(21)**	**9,652**

Movement in impairment losses for financial assets in the year ended 31 December 2016	Beginning of the period	Recognition through profit or loss	Reversal through profit or loss	Derecognition (sale, write-down etc.)	Change in the composition of the Group	End of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	-	1
Financial assets available for sale	**46**	**8**	**-**	**-**	**-**	**54**
Equity instruments	46	1	-	-	-	47
Debt securities	-	7	-	-	-	7
Loans	**2,015**	**1,896**	**(1,095)**	**(514)**	**847**	**3,149**
Debt securities	43	33	-	(5)	-	71
Loan receivables from clients	1,938	1,863	(1,095)	(491)	847	3,062
Term deposits with credit institutions	1	-	-	-	-	1
Loans	33	-	-	(18)	-	15
Receivables	**588**	**63**	**(54)**	**(6)**	**-**	**591**
Receivables on direct insurance	562	56	(50)	(6)	-	562
Reinsurance receivables	6	5	(3)	-	-	8
Other receivables	20	2	(1)	-	-	21
Reinsurers' share in technical provisions	**11**	**25**	**(27)**	**-**	**-**	**9**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**	**1**
Total	**2,662**	**1,992**	**(1,176)**	**(520)**	**847**	**3,805**

(in millions of PLN)

Credit quality of financial assets as at 31 December 2017	Carrying amount (net) of non past due assets		Carrying amount (net) of past due assets			Carrying amount (net)	Impairment losses		Gross value
	covered by impairment losses	not covered by impairment losses	up to 3 months	3 to 6 months	over 6 months		assessed individually	assessed collectively	
Debt securities held to maturity	**-**	**21,237**	**-**	**-**	**-**	**21,237**	**1**	**-**	**21,238**
Debt securities available for sale	**-**	**47,855**	**-**	**-**	**-**	**47,855**	**-**	**-**	**47,855**
Loans	**1,869**	**179,162**	**4,821**	**399**	**3,253**	**189,504**	**4,197**	**4,758**	**198,459**
Debt securities	-	13,623	-	-	-	13,623	98	-	13,721
Loan receivables from clients	1,869	159,115	4,821	399	3,253	169,457	4,091	4,748	178,296
Buy-sell-back transactions	-	885	-	-	-	885	-	-	885
Term deposits with credit institutions	-	1,841	-	-	-	1,841	8	10	1,859
Loans	-	3,698	-	-	-	3,698	-	-	3,698
Receivables	**906**	**7,630**	**344**	**73**	**143**	**9,096**	**67**	**582**	**9,745**
Receivables on direct insurance	899	1,103	313	62	105	2,482	24	580	3,086
Reinsurance receivables	2	41	15	6	4	68	7	-	75
Other receivables	5	6,486	16	5	34	6,546	36	2	6,584
Reinsurers' share in technical provisions	**121**	**1,129**	**-**	**-**	**-**	**1,250**	**12**	**-**	**1,262**
Total	**2,896**	**257,013**	**5,165**	**472**	**3,396**	**268,942**	**4,277**	**5,340**	**278,559**

(in millions of PLN)

Credit quality of financial assets as at 31 December 2016 (restated)	Carrying amount (net) of non past due assets		Carrying amount (net) of past due assets			Carrying amount (net)	Impairment losses		Gross value
	covered by impairment losses	not covered by impairment losses	up to 3 months	3 to 6 months	over 6 months		assessed individually	assessed collectively	
Debt securities held to maturity	**-**	**17,346**	**-**	**-**	**-**	**17,346**	**1**	**-**	**17,347**
Debt securities available for sale	**73**	**11,145**	**-**	**-**	**-**	**11,218**	**7**	**-**	**11,225**
Loans	**644**	**49,145**	**3,034**	**170**	**1,341**	**54,334**	**865**	**2,284**	**57,483**
Debt securities	121	2,342	-	-	-	2,463	71	-	2,534
Loan receivables from clients	523	39,930	3,034	170	1,341	44,998	778	2,284	48,060
Buy-sell-back transactions	-	2,880	-	-	-	2,880	-	-	2,880
Term deposits with credit institutions	-	2,285	-	-	-	2,285	1	-	2,286
Loans	-	1,708	-	-	-	1,708	15	-	1,723
Receivables	**1,007**	**4,295**	**211**	**45**	**106**	**5,664**	**65**	**526**	**6,255**
Receivables on direct insurance	909	1,004	197	39	84	2,233	36	526	2,795
Reinsurance receivables	1	53	9	5	8	76	8	-	84
Other receivables	97	3,238	5	1	14	3,355	21	-	3,376
Reinsurers' share in technical provisions	**49**	**941**	**-**	**-**	**-**	**990**	**9**	**-**	**999**
Total	**1,773**	**82,872**	**3,245**	**215**	**1,447**	**89,552**	**947**	**2,810**	**93,309**

(in millions of PLN)

34. Receivables

Receivables – carrying amount	31 December 2017	31 December 2016 (restated)
Receivables on direct insurance, including:	2,482	2,233
- receivables from policyholders	2,320	1,996
- receivables from insurance intermediaries	134	213
- other receivables	28	24
Reinsurance receivables	68	76
Other receivables	6,546	3,355
- receivables from disposal of securities and security deposits [1]	4,658	2,413
- receivables on account of payment card settlements	716	202
- trade receivables	295	148
Receivables from the state budget, other than corporate income tax receivables	100	55
- receivables from debt factoring	68	-
- prevention settlements	58	47
- receivables from direct claims handling on behalf of other insurance undertakings	29	40
- disputed settlements	7	-
- receivables for acting as an emergency adjuster	12	11
- receivables on account of Corporate Income Tax	57	16
- receivables from purchase price allocation of the acquisition of Bank BPH's Core Business	94	94
- receivables from security and bid deposits	91	12
- other	361	317
Total receivables	**9,096**	**5,664**

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

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

Receivables by contractual maturity	31 December 2017	31 December 2016 (restated)
Up to 1 year [1]	9,038	5,388
1 to 5 years	55	267
Over 5 years	3	9
Total receivables by contractual maturity	**9,096**	**5,664**

[1] Including past due receivables

35. Cash and cash equivalents

35.1.1. Accounting policy

Cash and cash equivalents include, among others cash at hand and cash in current accounts in banks, including on the NBP account.

Cash is recognized at nominal value.

(in millions of PLN)

35.1.2. Quantitative data

Cash and cash equivalents in the statement of financial position and cash flow statement	31 December 2017	31 December 2016
Balances with the central bank [1)]	2,518	17
Cash at bank and in hand	5,390	2,956
Other	330	-
Total cash and cash equivalents in the statement of financial position and cash flow statement	**8,239**	**2,973**

[1)] This amount pertains to the required reserve that Pekao and Alior Bank maintain on their current accounts with the National Bank of Poland, at levels consistent with decisions of the Monetary Policy Council. The increase between the presented periods is a result of the consolidation of Pekao in 2017.

Notes to the consolidated cash flow statement

In the consolidated cash flow statement, Prevention Fund resources were recognized as restricted cash. According to the Polish law and internal regulations of PZU Group companies, which are based on that law, these funds may only be expended for specific purposes within the prevention activity and full control must be retained over these funds in prevention activity.

36. Assets held for sale

36.1 Accounting policy

Assets and liabilities or disposal groups are classified as held for sale if there is a plan to sell them and an active program of finding a buyer is in place.

Assets and liabilities held for sale or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

36.2 Quantitative data

Assets held for sale by classification before transfer	31 December 2017	31 December 2016
Groups held for sale	**113**	**1,027**
Assets	116	1,060
Investment property	90	1,002
Receivables	1	12
Deferred tax assets	6	2
Cash and cash equivalents	17	42
Other assets	2	2
Liabilities related directly to assets classified as held for sale	3	33
Deferred tax liability	-	15
Other liabilities	3	18
Other assets held for sale	**201**	**129**
Property, plant and equipment	104	39
Investment property	97	90
Assets and groups of assets held for sale	**317**	**1,189**
Liabilities related directly to assets classified as held for sale	**3**	**33**

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. As the investment plans changed, the properties, which were worth PLN 887 million as at 31 December 2016, were reclassified to investment property.

(in millions of PLN)

The following table presents the list of the largest properties held for sale along with important parameters that were taken into account in measurement.

All properties shown in the table below have been valued with the income approach using the investment method and simple capitalization technique. This valuation uses non-observable inputs such as:

- capitalization rate – determined through analysis of rates of return obtained in transactions for similar properties;
- monthly rental rate per $1m^2$ of relevant space or for one parking space (rental rates for respective properties are presented in the table below).

No.	Property name	Fair value as at 31 December 2017	Fair value as at 31 December 2016	Type of space	Scope of unobservable data as at 31 December 2017	Scope of unobservable data as at 31 December 2016
1.	Warehouse buildings, Czeladź	92	115	Office in warehouse facilities	EUR 6.50 – 9.00	EUR 7.00 – 9.00
				Warehouse	EUR 2.80 – 3.50	EUR 2.90 – 3.60
2.	Office building under development, Wrocław	37	[1]	Office	EUR 14.00 – 16.00	EUR 11.00 – 14.50
				Construction costs	[2]	[2]
3	Other	58	977 [3]	n/a	n/a	n/a
	TOTAL	**187**	**1,092**			

[1] As at 31 December 2016, this property was classified as investment property. At that date, its fair value was PLN 34 million.
[2] Construction costs were determined based on market construction costs less costs incurred as at the date of measurement.
[3] Properties of the total value of PLN 887 million reclassified to investment property. Their current valuations and data ranges used in the valuation as at 31 December 2017 are presented in section 9.2.

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

37.1 Share capital

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

All the Shares have been fully paid for.

As at 31 December 2017 and 31 December 2016

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

The structure of PZU's shareholders and information on transactions with material blocks of PZU shares are presented in section 3.

37.1.1. Distribution of the parent company's profit

In respect to the distribution of profit for 2017 and for previous years, only the profit stated in PZU's standalone financial statements prepared in accordance with Polish Accounting Standards is subject to distribution.

37.1.1.1. Distribution of the 2016 profit

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

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

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

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

37.1.1.2. Distribution of the 2017 profit

As at the date of signing these consolidated financial statements, the PZU Management Board has not adopted a resolution in the matter of the proposed distribution of the 2017 profit.

37.2 Other capital

37.2.1. Accounting policy

Treasury shares purchased and retained by consolidated PZU Group entities are shown at purchase price.

The "Supplementary capital" item includes:

- the effect of distribution of profit, in accordance with the legal regulations in effect in the country of the company's domicile (in Poland under the Commercial Company Code) and the articles of association of PZU Group companies;
- the capital created upon the sale of investment property previously transferred from own property, according to the rules described in section 31;
- the difference between the change in value of non-controlling interest and fair value of payment in transactions with non-controlling interests.

Results of the following are posted in the "Revaluation reserve" item:

- revaluation of financial assets classified as assets available for sale;
- revaluation of property to its fair value on the date when it is classified from own property to investment property;
- measurement of hedging instruments, in respect to the part constituting effective hedge;

after taking into account the corresponding change in deferred tax assets or liabilities;

The item "Actuarial gains and losses related to provisions for employee benefits" includes amounts resulting from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments – demographic (e.g. mortality, employee turnover) and financial (e.g. discount rate or projected salary growth rate).

"Foreign exchange translation differences" include differences resulting from translation of financial data of foreign entities using exchange rates, in accordance with the rules described in section 5.5.

(in millions of PLN)

37.2.2. Quantitative data

Other capital	31 December 2017	31 December 2016
Treasury stock	-	(1)
Supplementary capital	11,824	10,758
Share premium account	538	538
Distribution of results of PZU Group companies	11,231	10,106
Other	55	114
Revaluation reserve	157	106
Measurement of financial instruments available for sale	78	25
Reclassification of real property from property, plant and equipment to investment property	85	89
Entities measured by the equity method	1	1
Cash flow hedging	(7)	(9)
Other reserve capital	5	5
Actuarial gains and losses related to provisions for employee benefits	4	3
Foreign exchange translation differences	(73)	(2)
Lietuvos Draudimas AB	(13)	40
AAS Balta	-	12
PZU Ukraine	(51)	(49)
PZU Ukraine Life	(10)	(8)
Other	1	3
Total other capital	**11,917**	**10,869**

Change in the revaluation reserve resulting from remeasurement of financial instruments available for sale	1 January – 31 December 2017	1 January – 31 December 2016
Beginning of the period	25	129
Changes	53	(104)
- change in fair value	132	(130)
- sale	(79)	26
End of the period	**78**	**25**

38. Technical provisions

38.1 Accounting policy

38.1.1. Non-life insurance

Provision for unearned premiums and provision for unexpired risk

Provision for unearned premiums is calculated at the end of each reporting period on a case-by-case basis, with the precision of one day.

Provision for unexpired risk is recognized as an addition to the provision for unearned premiums to cover future claims, benefits and expenses, including deferred acquisition costs, in relation to insurance agreements that do not expire on the last day of the reporting period. The provision for unexpired risk is calculated for insurance groups at the end of each reporting period.

The total amount of the provision for unexpired risk is determined for those insurance groups where the current year loss ratio is greater than 100%, as a difference between the product of the provision for unearned premiums and the loss ratio of the current financial year and the provision for unearned premiums for the same insurance period.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits includes:

- provision for outstanding claims and benefits for losses and accidents incurred and reported (RBNP) by the end of the reporting period;
- provision for losses and accidents incurred but not reported (IBNR) by the end of the reporting period
- provision for claims handling expenses.

The RBNP provision is calculated on a case-by-case basis by claims handling units or, if available information is not sufficient to assess the provision amount, at the average claim amount determined using the actuarial method. The provision recognized takes into account the insured's deductible, the expected increase in prices of goods and repair services and may not be greater than the sum insured or indemnity. The provision is updated as soon as information influencing its amount is available, on a case-by-case assessment or estimation of losses and claims.

The IBNR provision is recognized for losses and claims that are not reported by the balance sheet date, as at which the provision is recognized. IBNR is calculated using the loss triangle analysis method: a generalized Chain Ladder method and for a small number or value of losses the Bornhuetter-Ferguson method, broken down by the years in which the losses occurred. The calculations are based on the annual triangles of claims paid and claims reported.

The provision for direct claims handling expenses for reported claims is calculated for each claim individually, and for claims incurred but not reported – using the generalized Chain Ladder method (based on the cost triangles analysis, broken down by the years in which the losses occurred).

The provision for indirect claims handling expenses is calculated using the actuarial method, as a product of the ratio of the percentage of indirect claims handling expenses in claims paid and direct claims handling expenses and the sum of provision for claims reported but not paid and the provision for losses and accidents incurred but not reported and the provision for direct claims handling expenses.

The 1st and the 2nd provisions and the provision for claims handling expenses are recognized at the nominal value, i.e. they are not discounted.

Provision for the capitalized value of annuities

Provision for the capitalized value of annuities is calculated on a case-by-case basis as the present value of an annuity (lifetime or temporary) paid in advance.

At the end of each reporting period, actuarial methods are used to recognize a provision for the capitalized value of annuities arising from losses incurred after 31 December 1990 and not recognized as annuities until the end of the reporting period (annuity IBNR). At the end of each reporting period, the amount of additional provision is also calculated to cover liabilities resulting from the increase of annuity benefits from the "legacy portfolio". The increases apply to those annuity beneficiaries, for whom a corresponding provision was calculated at the end of 1997 and the benefit at the end of the reporting period is lower than a certain percentage of the present value of average wages between 1960 and 1990.

Provision adequacy tests

Provision adequacy testing is not required in non-life insurance. However when consolidated financial statements are prepared, a procedure that is similar to the provision adequacy test in life insurance is conducted to verify whether claims provisions within individual products are sufficient. The test takes into account current trends in accident incidence, reporting rates and claim payments. If the estimates that consider current trends are higher than claims provisions then the provisions are increased up to the estimated amount. Otherwise, the provisions may be partially released.

The mechanism for recognizing the provision for unexpired risks in non-life insurance corresponds to the minimum requirements for the provisions adequacy test.

38.1.2. Life insurance

Provision for unearned premiums

Provision for unearned premiums is created as the portion of gross written premiums that corresponds to future reporting periods, pro rata to the period for which the premium is written.

Life insurance provision

Life insurance provision is calculated using prospective actuarial methods, for each insurance contract individually, using the *net premium reserves* method; they are equal to the difference between:

- expected present value of guaranteed benefits that may arise out of the insurance cover provided;
- present value of premiums expected to be paid until the end of the term of these contracts.

In unit-linked insurance, a life insurance provision is created to cover current claims arising out of the insurance cover over and above the amount of the unit-linked fund; it corresponds to the part of the payments collected for the insurance cover that is attributable to future reporting periods.

The calculation of a life insurance provision also includes a mark-up on costs, while the provisions themselves are not reduced by the value of deferred acquisition costs.

Unit-linked life insurance provision

Unit-linked life insurance provisions are recognized in the amount of the investment made under the terms of the contract.

Provision for outstanding claims and benefits

Provision for outstanding claims and benefits is created separately for:

- claims reported but not paid – using the individual method or, if the loss amount cannot be assessed (if the occurrence of losses is a mass phenomenon), using the average claim from the quarter immediately preceding the reporting quarter;
- claims incurred but not reported – using the flat-rate method, as a percentage of claims paid for the last twelve months.

The provision for outstanding claims and benefits also includes the provision for claims handling expenses.

Provisions for bonuses and discounts for insureds

This provision corresponds to the portion of insurance profits recorded at the end of the reporting period, which will be awarded and paid to the insured (profit share) after the end of the settlement period on the terms and conditions set forth in contracts.

Other technical provisions

Other technical provisions in life insurance include:

- revaluation provision for claims under individual life insurance and annuities taken over from Państwowy Zakład Ubezpieczeń;
- provision for pending court proceedings and benefits arising out of court rulings (pursuant to Article 358 § 3 of the Civil Code Act of 23 April 1964 (i.e. Journal of Laws of 2017, item 459 as amended) changing the amount or performance of a cash benefit;

  the amount of this provision has been determined based on the value of expected future additional benefits arising out of court cases and settlements. The value of these benefits has been determined by extrapolating the historical trend of benefits estimated based on the number of completed court proceedings and settlements and the value of the awarded amounts;
- low interest rate provision - related to the expected decrease in return on assets covering life insurance provisions for traditional individual life insurance and provisioning of children and disability pensions. The provision is created by the actuarial method, on a case-by-case basis, in the amount corresponding to the difference between:
  - the amount of the mathematical provisions calculated by using appropriate mathematical formulas and by applying modified technical rates, considering their expected reduction in the future, and
  - the amount of the mathematical provisions calculated in line with the applicable provisioning regulations, at the original technical rate that was used to price the products.

Provision adequacy tests

At the end of each year, for each product in the life insurance portfolio, the amount of technical provisions recognized in the consolidated financial statements is compared with the present value of expected future cash flows, i.e. the economic value of liabilities. These cash flows projections include: premium income, expenditures on benefits, expenses, fees and commissions and are based on several assumptions regarding: mortality, loss ratio, lapse rates, servicing expenses, yields curves and other product-specific assumptions (e.g. indexation).

The assumptions used to project future cash flows, regarding expected future mortality, loss ratio, lapse rates and other product-specific assumptions, are reviewed and updated on an annual basis based on current experience and observed trends. Taken together with the assessment of their further development, they constitute the best estimate assumption for further developments in mortality, loss, lapses, etc.

Future indexations of sum insured and premium amounts resulting from the profit participating rights, defined as the excess of rates of return on investments over the technical rate, are based on a projection of future rates of return on the current portfolio of assets to cover provisions for these products, together with their expected future reinvestments at the present term structure of interest rates, i.e. in line with current market expectations.

Future costs are projected based on the expected number of contracts remaining in the portfolio in successive periods and the average unit service cost per contract. The assumptions for unit costs are adopted on the basis of expected future portfolio maintenance and servicing expenses, asset management and claims handling expenses. It is assumed that unit service costs will rise in successive years of the projection period by the cost increase ratio. The amount of future commissions is determined based on the agreed commission rates for individual contracts in their successive years.

The present value of future cash flows is calculated using the discount factors based on the unadjusted yield of Polish government bonds according to their current market quotations.

The test compares the present value of projected cash flows with the amount of provisions shown at the end of each year. If provisions are found to be insufficient in relation to the value of discounted cash flows, changes are introduced to the existing provisioning rules and consequently their value is adjusted.

The purpose of the provision adequacy test is to assess whether the technical provision amounts captured in the consolidated financial statements are sufficient, rather than to assess adequacy of the individual assumptions. Accordingly, the provision adequacy test does not directly identify the degree of adequacy or inadequacy of the individual assumptions adopted in technical provision estimation process.

38.1.3. Reinsurers' share

Reinsurers' share in the provision for unearned premiums, in the provision for unexpired risk and in the provision for outstanding claims and benefits is determined at the amount stated in the terms and conditions of the relevant reinsurance treaties.

Reinsurers' share in claims and benefits is determined for those insurance groups, for which there is reinsurance coverage, to the extent to which reinsurers participate in the claims and benefits according to the terms and conditions of the pertinent reinsurance treaties in effect in a given period.

38.2 Estimates and assumptions

38.2.1. Non-life insurance

In the calculation of provisions for outstanding claims and benefits, the uncertainty related to bodily injury claims is taken into account. For such claims, changes in the legal environment and uncertain jurisprudence may affect the ultimate amount of benefits paid.

When calculating the provision for the capitalized value of annuities, the future increase in average annuity is estimated based on historical data and taking into account other information that may contribute to an increase in annuities in the future (for example, growing insurance awareness, legislative changes, etc.).

Both as at 31 December 2017 and 31 December 2016, a technical rate of 3.6% was assumed for all annuities and an annuity growth rate of 3.9%, estimated on the basis of inflation and salary growth forecasts.

For lifetime annuities, the period in which the annuity will be payable is determined using publicly available statistics, which in Poland include Polish Life Expectancy Tables published by the Central Statistical Office. Additionally, the provision for the capitalized value of annuities is calculated taking into account the cost of future handling services at 3% of the value of benefits paid.

The estimated final value of claims and benefits paid in provision development triangles and the analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate the provision for the capitalized value of annuities are presented in section 7.5.2.1.

38.2.2. Life insurance

The amount of the life insurance provision corresponds to the value of liabilities under insurance contracts concluded. It is calculated as the difference between the present value of expected benefits and the present value of expected premiums, using the net premium reserve method. The calculation of provisions takes into account all the benefits and premiums provided for in contracts as contractual liabilities and receivables, regardless of whether a contract is performed by the policyholder until the end of the agreed term or terminated by the policyholder. The assumptions made for the frequency of events covered by insurance, i.e. mortality, morbidity and accident rate, are determined based on publicly available statistics, such as the Polish Life Expectancy Tables in Poland or based on own statistics developed using historical data on particular groups of products in the portfolio.

In the case of technical rates (discount rates) used to calculate present values of benefits and premiums, the assumptions are based on the expected rates of return on existing assets and their future reinvestments, taking into account the maximum technical rate limit for new contracts, announced annually by KNF.

(in millions of PLN)

The assumptions used to calculate life insurance provisions are made separately for each insurance product at the time the premium tariffs are adopted and product's sales are launched (" lock-in-assumptions"). Every year, the assumptions are verified for adequacy. If it is found that an assumption is inadequate, it is verified and adjusted, which leads directly to a change in the value of liabilities presented in the consolidated financial statements. The above assumptions are subject to natural uncertainty resulting from the long term of the projection.

Incidence of insured events

The following data are taken into account in the calculation of provisions: data on the level of guaranteed sums insured and benefits, data on the age and sex of respective insured persons and also, in the case of group employee insurance products in work establishments and employee and family individually continued insurance products, assumptions about the age structure of the co-insured persons (family members of the insured persons).

For insurance products with a profit participation feature and for legacy portfolio insurance, the life insurance provision also includes previously granted profit participation rights in the form of changes in sums insured and premiums and restatements of guaranteed benefits, including the revaluation of annuities performed by PZU Życie.

The analysis of sensitivity of the net result and equity to changes in the assumptions used to calculate technical provisions in life insurance is presented in section 7.5.2.2.

38.3 Quantitative data

Technical provisions	31 December 2017			31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**22,000**	**(1,250)**	**20,750**	**20,388**	**(990)**	**19,398**
Provision for unearned premiums	7,877	(466)	7,411	6,957	(377)	6,580
Provision for unexpired risk	37	(3)	34	26	-	26
Provisions for outstanding claims and benefits	8,301	(585)	7,716	7,730	(421)	7,309
- for reported claims	3,187	(533)	2,654	2,992	(371)	2,621
- for claims not reported (IBNR)	3,348	(41)	3,307	2,979	(29)	2,950
- for claims handling expenses	1,766	(11)	1,755	1,759	(21)	1,738
Provision for the capitalized value of annuities	5,776	(190)	5,586	5,673	(192)	5,481
Provisions for bonuses and discounts for insureds	9	(6)	3	2	-	2
Technical provisions in life insurance	**22,558**	**-**	**22,558**	**21,806**	**-**	**21,806**
Provision for unearned premiums	94	-	94	93	-	93
Life insurance provision	16,060	-	16,060	15,928	-	15,928
Provisions for outstanding claims and benefits	597	-	597	542	-	542
- for reported claims	153	-	153	156	-	156
- for claims not reported (IBNR)	437	-	437	380	-	380
- for claims handling expenses	7	-	7	6	-	6
Provisions for bonuses and discounts for insureds	5	-	5	3	-	3
Other technical provisions	287	-	287	323	-	323
Unit-linked provision	5,515	-	5,515	4,917	-	4,917
Total technical provisions	**44,558**	**(1,250)**	**43,308**	**42,194**	**(990)**	**41,204**

The above table also contains the amounts of life insurance provisions recognized for the legacy portfolio, in the following amounts:

Technical provisions for the legacy portfolio	31 December 2017	31 December 2016
Life insurance provisions	401	419
Other technical provisions	121	134
- low interest rate provision	47	90
- litigation reserve	74	44
IBNR and RBNP reserve	2	2
Total provisions for the legacy portfolio	**524**	**555**

(in millions of PLN)

38.4 Technical provisions in non-life insurance

Provisions (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	31 December 2017			31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Accident and sickness insurance (group 1 and 2)	392	(10)	382	386	-	386
Motor third party liability insurance (group 10)	13,544	(361)	13,183	12,551	(306)	12,245
Other motor insurance (group 3)	2,769	(21)	2,748	2,446	(41)	2,405
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	88	(20)	68	94	(20)	74
Insurance against fire and other property damage (groups 8 and 9)	2,221	(547)	1,674	1,810	(271)	1,539
TPL insurance (groups 11, 12, 13)	2,157	(106)	2,051	2,150	(92)	2,058
Credit and suretyship (groups 14, 15)	196	(77)	119	183	(72)	111
Assistance (group 18)	280	(1)	279	239	(4)	235
Legal protection (group 17)	10	-	10	7	-	7
Other (group 16)	343	(107)	236	522	(184)	338
Total technical provisions	**22,000**	**(1,250)**	**20,750**	**20,388**	**(990)**	**19,398**

Technical provisions in non-life insurance	31 December 2017			31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Short-term	5,162	(312)	4,850	4,972	(265)	4,707
Long-term	16,838	(938)	15,900	15,416	(725)	14,691
Total technical provisions	**22,000**	**(1,250)**	**20,750**	**20,388**	**(990)**	**19,398**

Long-term provisions are those under which projected cash flows will occur more than 12 months after the end of the reporting period, or after 31 December 2017.

Movement in provisions

Movement in the provision for unearned premiums in non-life insurance	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	6,957	(377)	6,580	5,643	(339)	5,304
Increase (reduction) of provisions relating to policies concluded in the current year	7,334	(429)	6,905	6,552	(194)	6,358
Increase (reduction) of provisions relating to policies concluded in previous years	(6,366)	336	(6,030)	(5,255)	156	(5,099)
Foreign exchange differences in the period	(48)	4	(44)	17	-	17
Total technical provisions	**7,877**	**(466)**	**7,411**	**6,957**	**(377)**	**6,580**

Movement in provision for unexpired risk	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	26	-	26	119	-	119
Increase (reduction) of provisions relating to policies concluded in the current year	33	(3)	30	23	-	23
Increase (reduction) of provisions relating to policies concluded in previous years	(21)	-	(21)	(116)	-	(116)
Foreign exchange differences in the period	(1)	-	(1)	-	-	-
End of the period	**37**	**(3)**	**34**	**26**	**-**	**26**

(in millions of PLN)

Movement in the provision for outstanding claims and benefits in non-life insurance	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Balance at the beginning of the period, including:	7,730	(421)	7,309	7,706	(580)	7,126
Benefits paid related to losses incurred in previous years, including:	(2,713)	177	(2,536)	(2,502)	247	(2,255)
- claims paid	(2,308)	170	(2,138)	(2,133)	241	(1,892)
- claims handling expenses	(405)	7	(398)	(369)	6	(363)
Increase (reduction) of provisions, including:	3,305	(348)	2,957	2,539	(87)	2,452
- relating to losses incurred in the current year	3,212	(223)	2,989	2,751	(66)	2,685
- relating to losses incurred in previous years	93	(125)	(32)	(212)	(21)	(233)
Other changes	6	4	10	(24)	(1)	(25)
Foreign exchange differences in the period	(27)	3	(24)	11	-	11
End of the period	**8,301**	**(585)**	**7,716**	**7,730**	**(421)**	**7,309**

Movement in the provision for the capitalized value of annuities in non-life insurance	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	5,673	(192)	5,481	5,808	(178)	5,630
Claims paid related to losses incurred in previous years	(355)	11	(344)	(325)	9	(316)
Increase (reduction) of provisions relating to losses incurred in previous years	212	(4)	208	13	(22)	(9)
Changes in assumptions resulting from movements in technical rates	(16)	1	(15)	(15)	-	(15)
Increase in provisions relating to losses incurred in the current year	203	(4)	199	168	-	168
Other changes	59	(2)	57	24	(1)	23
End of the period	**5,776**	**(190)**	**5,586**	**5,673**	**(192)**	**5,481**

38.5 Technical provisions in life insurance

Movement in the life insurance provision, provision for bonuses and discounts and other technical provisions – insurance contracts	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	16,254	-	16,254	16,606	-	16,606
Increase (reduction) of provisions relating to policies concluded in the current year	333	-	333	316	-	316
Increase (reduction) of provisions relating to policies concluded in previous years	(218)	-	(218)	(668)	-	(668)
Foreign exchange differences	(17)	-	(17)	-	-	-
End of the period	**16,352**	**-**	**16,352**	**16,254**	**-**	**16,254**

Gross movement in life insurance provisions – unit-linked contracts	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	4,917	-	4,917	4,744	-	4,744
Fund increases due to premiums	1,411	-	1,411	956	-	956
Fees charged	(90)	-	(90)	(91)	-	(91)
Income on fund's investments	287	-	287	131	-	131
Fund reductions due to claims, surrenders etc.	(952)	-	(952)	(799)	-	(799)
Other changes	(58)	-	(58)	(24)	-	(24)
End of the period	**5,515**	**-**	**5,515**	**4,917**	**-**	**4,917**

(in millions of PLN)

Gross movement in claims provisions	1 January – 31 December 2017			1 January – 31 December 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Beginning of the period	542	-	542	558	-	558
Claims provisions used during the year	(572)	-	(572)	(562)	-	(562)
Claims provisions recognized during the year	627	-	627	546	-	546
End of the period	**597**	**-**	**597**	**542**	**-**	**542**

39. Provisions for employee benefits

39.1 Accounting policy

In connection with the accepted accounting and the fact that PZU Group companies have not separated assets of defined benefit plans, the carrying amount of provisions for defined benefit plans is equal to the carrying amount of their corresponding liabilities.

39.1.1. Defined contribution plans

The costs of contributions incurred by an employer, which are statutory burdens imposed on employee salaries, are charged to the profit and loss account in the period in which they are incurred. In Poland, they include parts of contributions for pension and disability insurance and all the contributions for accident insurance, Labor Fund, Guaranteed Employee Benefit Fund and a charge to the Company Social Benefit Fund.

39.1.2. Defined benefit plans

Pursuant to the Labor Code Act of 26 June 1974 (Journal of Laws of 2018, Item 108, as amended, "Labor Code") employees of the PZU Group companies that are domiciled in Poland are entitled to a retirement severance pay (in the amount equal to one month's salary at the time of retirement) or post-mortem benefits (depending on the tenure in PZU Group companies, in the amount equal to salary for 1-6 months).

The costs of defined benefit plans estimated using actuarial methods are recognized on an accrual basis by applying the forecast specific entitlements method.

Actuarial gains and losses are recognized in full in the period in which they occurred, in the line item "Actuarial gains and losses related to provisions for employee benefits" in other comprehensive income. Additional information is presented in item 37.2.1.

39.1.3. Costs of holiday leaves

Employees have the right to holiday leaves, which are regulated by labor law (in Poland by the Labor Code). The costs of holiday leaves is recognized on the accrual basis using the liability method. The amount of the liability for holiday leaves is determined using the liability method, based on the difference between the actual amount of holidays used by employees and the amount that would have been used if the holidays had been taken pro rata to the lapse of time in the period when the employees are entitled to the leaves in accordance with the applicable regulations.

39.2 Estimates and assumptions

Provisions for retirement severance pay and post-mortem benefits are estimated by actuarial methods, using appropriate actuarial techniques and assumptions:

(in millions of PLN)

- discount rates consistent with the yield curve of zero-coupon Treasury bonds,
- mortality rate assumed at the level specified in the Polish Life Expectancy Tables,
- the expected salary growth rate in the individual entities of the PZU Group,
- employee turnover rate (broken down by age, length of service and sex), and
- disability rate (i.e. departures due to disability) taken as a relevant percentage of the mortality rate.

39.3 Quantitative data

Provisions for employee benefits	31 December 2017	31 December 2016
Provision for holiday leaves	158	76
Defined benefit plans	353	49
- provisions for retirement severance pays	330	33
- provisions for post-mortem benefits	23	16
Other long-term employee benefits	45	3
Total provisions for employee benefits	**556**	**128**

40. Other provisions

40.1 Accounting policy

A provision is a liability of uncertain timing or amount. A provision is recognized on the basis of a current obligation arising from past events, the settlement of which will result in an outflow of resources embodying economic benefits. A provision amount is determined based on a reliable estimation of this outflow at the balance sheet date.

Provisions for guarantees and sureties are determined as a difference between the expected value of a balance sheet exposure arising from an off-balance sheet liability and the present value of expected future cash flows obtained from the balance sheet exposure resulting from the liability granted.

A provision for restructuring costs is recognized only if the general provisioning criteria are met and additionally the detailed criteria relating to restructuring cost provisions are satisfied, such as having a detailed formal restructuring plan and raising valid expectation in those affected that the restructuring will be carried out (by starting to implement the plan or announcing its main features).

40.2 Estimates and assumptions

Provisions for disputes are determined on a case-by-case basis, taking into account the probability of an outflow of resources embodying economic benefits to meet the obligation. An outflow of resources is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

Detailed descriptions and amounts of provisions for disputes are presented in section 47.

40.3 Quantitative data

Other provisions	31 December 2017	31 December 2016
Short-term	279	352
Long-term	218	15
Total other provisions	**497**	**367**

(in millions of PLN)

Movement in other provisions in the year ended 31 December 2017	Beginning of the period	Increase	Utilization	Reversal	Change in the composition of the Group	Other changes	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 year ended 31 December 2016	Beginning of the period	Increase	Utilization	Reversal	Change in the composition of the Group	End of the period
Provision for restructuring expenses	3	200	(6)	-	55	252
Provision for disputed claims and potential liabilities	4	3	(1)	-	5	11
Provision for penalties imposed by the Office of Competition and Consumer Protection [1)]	58	-	-	-	-	58
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	6
Provisions for guarantees and sureties given	5	19	-	(16)	10	18
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	-	-	-	9
Other	23	7	(8)	(9)	-	13
Total other provisions	**108**	**229**	**(15)**	**(25)**	**70**	**367**

[1)] The main component of the "Provision for penalties imposed by the Office of Competition and Consumer Protection" is explained in section 47.2.

Provisions for guarantees and sureties given

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

Provision for restructuring expenses

The item includes mainly a restructuring provision recognized by Alior Bank, earmarked for the payment of statutory severance pay in connection with group layoffs and for the so-called "additional compensation" arising out of an agreement concluded with trade unions and a provision for the branch network restructuring costs and the abandonment of the branches that are located too close to franchise outlets (the provision covers the costs of compensation and costs related to the physical departure from the branch and restoration to its original condition). As at 31 December 2017, the amount of the provision was PLN 39 million (PLN 250 million as at 31 December 2016).

The remaining part of the balance (PLN 24 million) is related to the restructuring process conducted in PZU i PZU Życie. Additional information on this matter is presented in item 50.3.

(in millions of PLN)

41. Deferred tax

41.1 Accounting policy

The level of deferred tax liabilities and assets is determined using the balance sheet method using the corporate income tax rates which are expected to be in effect when the asset or liability is realized, in accordance with the provisions of tax law in the countries of domicile of the individual PZU Group companies issued by the end of the reporting period.

For all of the consolidated companies participating in the Tax Group, deferred tax assets and liabilities are offset on the assumption that the Tax Group contract will be prolonged for subsequent periods, and therefore the period in which the reversal of temporary differences is expected is not analyzed for the purposes of this offsetting.

41.2 Estimates and assumptions

PZU Group companies have estimated their future taxable income in terms of the possibility to realize deductible temporary differences arising from tax losses incurred by these companies. As a result of these estimates, no deferred tax assets relating to unused tax loss were recognized.

41.3 Deferred tax assets

As at 31 December 2017, unrecognized deferred tax assets related to tax losses were as follows:

- in Link4: PLN 14 million (as at 31 December 2016: PLN 17 million) – realization will be possible within a 5-year period counted from the moment in which Link4 ceases to be part of the Tax Group;
- in PZU Lietuva Gyvybes Draudimas: PLN 2 million (as at 31 December 2016: PLN 2 million) – unrestricted realization period.

Movement in deferred tax assets in the year ended 31 December 2017	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in the composition of the Group	Other changes	End of the period
Loan receivables from clients	319	(48)	-	524	-	795
Bank commissions collected in advance	294	6	-	178	-	478
Liabilities to clients	24	11	-	33	-	68
Intangible assets – trademarks and customer relations	(48)	39	-	(331)	-	(340)
Financial instruments	33	61	(25)	169	1	239
Real property	-	15	-	(75)	(4)	(64)
Accrued reinsurance income and expenses	-	18	-	-	-	18
Provisions for employee benefits	(1)	4	(2)	74	10	85
Provisions for bonuses	-	20	-	31	16	67
Other provisions and liabilities	(57)	107	(2)	245	(15)	278
Tax losses to be used in subsequent years	5	1	-	25	-	31
Provision for restructuring expenses	48	(41)	-	-	-	7
Tax allowance for activities conducted in a special economic zone	13	(13)	-	-	-	-
Total deferred tax assets	**633**	**176**	**(27)**	**799**	**(4)**	**1,577**

(in millions of PLN)

Movement in deferred tax assets in the year ended 31 December 2016 (restated)	**Beginning of the period**	**Changes recognized in profit or loss**	**Changes recognized in other comprehensive income**	**Change in the composition of the Group**	**Other changes**	**End of the period**
Loan receivables from clients	230	6	-	83	-	319
Bank commissions collected in advance	145	51	-	98	-	294
Liabilities to clients	27	(5)	-	2	-	24
Intangible assets – trademarks and customer relations	(57)	9	-	-	-	(48)
Financial instruments	(2)	13	21	1	-	33
Real property	(4)	4	-	-	-	-
Other provisions and liabilities	12	39	-	(113)	5	(57)
Tax losses to be used in subsequent years	3	(1)	-	-	3	5
Provision for restructuring expenses	-	37	-	11	-	48
Tax allowance for activities conducted in a special economic zone	13	-	-	-	-	13
Total deferred tax assets	**369**	**153**	**21**	**82**	**8**	**633**

41.4 Deferred tax liability

Movement in deferred tax liabilities in the year ended 31 December 2017	**Beginning of the period**	**Changes recognized in profit or loss**	**Changes recognized in other comprehensive income**	**Change in the composition of the Group**	**Other changes**	**End of the period**
Financial instruments	108	122	3	-	(4)	229
Subrogation receivables	4	5	-		-	9
Real property	60	(7)	-	1	19	73
Deferred acquisition costs	254	14	-		-	268
Accrued reinsurance income and expenses	28	(14)	-		-	14
Intangible assets – trademarks and customer relations	41	(12)	-	33	(1)	61
Provisions for employee benefits	(11)	-	-	(1)	-	(12)
Provision for bonuses	(46)	(3)	-	(1)	-	(50)
Liabilities due but not paid to natural persons (under mandate, agency contracts, etc.)	(60)	(5)	-	-	-	(65)
Other provisions and liabilities	(80)	(9)	-	1	(1)	(89)
Prevention fund	16	1	-	-	-	17
Equalization provision	127	10	-	-	-	137
Tax losses to be used in subsequent years	(22)	4	-	-	-	(18)
Other differences	50	10	1	3	-	64
Total deferred tax liabilities	**469**	**116**	**4**	**36**	**13**	**638**

(in millions of PLN)

Movement in deferred tax liabilities in the year ended 31 December 2016	Beginning of the period	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes	End of the period
Financial instruments	233	(111)	(20)	6	108
Subrogation receivables	(2)	6	-	-	4
Real property	51	29	1	(21)	60
Deferred acquisition costs	205	49	-	-	254
Accrued reinsurance income and expenses	15	13	-	-	28
Intangible assets – trademarks and customer relations	44	(4)	-	1	41
Provisions for employee benefits	(14)	1	1	1	(11)
Provision for bonuses	(44)	(4)	-	2	(46)
Liabilities due but not paid to natural persons (under mandate, agency contracts, etc.)	(50)	(10)	-	-	(60)
Other provisions and liabilities	(81)	(2)	-	3	(80)
Prevention fund	16	-	-	-	16
Equalization provision	121	6	-	-	127
Tax losses to be used in subsequent years	(19)	(6)	-	3	(22)
Other differences	34	13	-	3	50
Total deferred tax liabilities	**509**	**(20)**	**(18)**	**(2)**	**469**

42. Financial liabilities

42.1 Accounting policy

Financial liabilities are recognized in the statement of financial position of financial position at the moment when a PZU Group company becomes a party to a binding contract, under which it assumes the risks associated with the financial instrument. In the case of transactions concluded on an organized market, the purchase or sale of financial liabilities are recognized in the books on the date of the transaction.

A financial liability (or its part) is derecognized from the consolidated statement of financial position when the obligation defined in the respective agreement has been fulfilled, waived or has expired.

Trade liabilities are recognized at the required payment amount due to their short-term nature.

(in millions of PLN)

42.2 Quantitative data

Financial liabilities	31 December 2017	31 December 2016
Financial liabilities measured at fair value	**4,956**	**3,314**
Derivatives held for trading	2,606	781
Cash flow hedge derivatives	682	6
Fair value hedge derivatives	186	-
Liabilities on borrowed securities (short sale)	750	654
Investment contracts for the client's account and risk (unit-linked)	312	329
Liabilities to members of consolidated mutual funds	420	1,544
Financial liabilities measured at amortized cost	**219,551**	**56,716**
Liabilities to banks	5,323	503
Current deposits	996	32
One-day deposits	372	1
Term deposits	311	-
Loans received	3,380	305
Other liabilities	264	165
Liabilities to clients	198,163	48,472
Current deposits	122,956	25,791
Term deposits	74,453	22,160
Other liabilities	754	521
Liabilities on the issue of own debt securities	9,567	6,469
Subordinated liabilities	5,319	1,027
Liabilities on account of repurchase transactions	1,167	178
Investment contracts with guaranteed and fixed terms and conditions	1	67
Finance lease liabilities	11	-
Total financial liabilities	**224,507**	**60,030**

Financial liabilities by maturity	31 December 2017	31 December 2016
Up to 1 year	206,158	51,783
1 to 5 years	11,758	7,195
Over 5 years	6,591	1,052
Total financial liabilities by maturity	**224,507**	**60,030**

42.3 Subordinated liabilities

	Nominal value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 31 December 2017 (PLN million)	Carrying amount 31 December 2016 (PLN million)
Liabilities classified as PZU's equity						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,285	-
Liabilities included in equity – Pekao						
Subordinated bonds – Pekao	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,257	-
Liabilities included in equity – Alior Bank						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	42	44
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	-
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	68	68
Meritum Bank series C bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	80	80
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	43	45
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	150	151
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	70	71
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	151	-
Subordinated liabilities					**5,319**	**1,027**

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.

42.4 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 December 2017	31 December 2016
PZU Finance AB (publ.)	3,478	3,680
Alior Bank series J bonds	253	-
Pekao bonds	90	-
Certificates of deposit	4,498	2,769
Covered bonds	1,248	-
Liabilities on the issue of own debt securities	**9,567**	**6,449**

	Nominal value	Interest rate	Issue dates	Maturity date
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

(in millions of PLN)

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.

42.5 Investment contracts

Total expected cash flow on investment contracts	31 December 2017	31 December 2016
Up to 1 year [1)]	313	467
1 to 5 years	-	42
Total	**313**	**509**

[1)] including cash flows under unit-linked contracts with unspecified maturity, for which the carrying amount was presented.

Financial assets linked to investment contracts for the client's account and risk (unit-linked) are mainly the participation units in mutual funds recognized under "Financial instruments at fair value through profit or loss – held for trading".

The list of assets linked to investment contracts is presented in section 7.5.3.

43. Other liabilities

Other liabilities	31 December 2017	31 December 2016 (restated)
Accrued expenses	**1,462**	**1,182**
Accrued expenses of agency commissions	336	301
Accrued sales commission expenses in group insurance	8	10
Accrued payroll expenses	160	170
Accrued reinsurance expenses	367	432
Accrued employee bonuses	320	149
Other	271	120
Deferred revenue	**354**	**152**
Other liabilities	**7,229**	**3,657**
Liabilities due under transactions on financial instruments	1,772	932
Liabilities to banks for payment documents cleared in interbank clearing systems	2,125	593
Liabilities on direct insurance	840	849
Liabilities on account of payment card settlements	437	65
Regulatory settlements	151	67
Liabilities for contributions to the Bank Guarantee Fund	80	10
Reinsurance liabilities	140	133
Estimated non-insurance liabilities	126	119
Liabilities to employees	163	165
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	121	71
Trade liabilities	320	91
Current income tax liabilities	390	225
Liabilities to the state budget other than for income tax	110	56
Liabilities on account of donations	28	34
Liabilities on account of non-market lease contracts	14	32
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	17	23
Insurance Indemnity Fund	16	16
Liabilities for direct claims handling	14	13
Other	365	163
Other liabilities, total	**9,045**	**4,991**

(in millions of PLN)

As at 31 December 2017 and 31 December 2016, the fair value of other liabilities did not differ significantly from their carrying amount, primarily due to the fact that more than 95% were short-term liabilities.

Other liabilities by maturity	31 December 2017	31 December 2016 (restated)
Up to 1 year	8,730	4,808
1 to 5 years	269	181
Over 5 years	46	2
Total other liabilities by maturity	**9,045**	**4,991**

44. Leasing

44.1 Accounting policy

The classification of is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. PZU Group companies are parties to lease contracts both as lessors and as lessees.

44.1.1. Finance leases

In finance leases, which transfer substantially all the risks and rewards incidental to ownership of an asset, an asset is no longer recognized in the lessor's balance sheet. Instead, the lessor recognizes a receivable in the amount equal to the present value of minimum lease payments, which are then divided between interest income and reduction of the balance of receivables.

44.1.2. Operating leases

Operating lease contracts apply mainly to properties.

Operating lease payments are recognized in the profit and loss account as revenue on a straight-line basis over the term of the lease.

44.2 Quantitative data

44.2.1. Finance leases

PZU Group as a lessor

Operating lease receivables, gross	31 December 2017			31 December 2016		
	Gross investment in the lease	Present value of minimum lease payments	Unrealized revenue	Gross investment in the lease	Present value of minimum lease payments	Unrealized revenue
Up to 1 year	1,917	1,842	195	77	66	11
1 to 5 years	3,299	3,238	236	223	205	17
Over 5 years	351	340	15	11	10	1
Total	**5,567**	**5,420**	**446**	**311**	**281**	**29**

(in millions of PLN)

44.2.2. Operating leases

44.2.2.1. PZU Group as a lessor

Operating leases generally include investment property lease contracts. The following table presents future minimum lease payments under non-cancellable operating leases (undiscounted amounts).

Future minimum receivables under lease payments	31 December 2017	31 December 2016
Up to 1 year	219	209
1 to 5 years	438	442
Over 5 years	213	129
Total future minimum receivables under lease payments	**870**	**780**

44.2.2.2. PZU Group as a lessee

Operating lease liabilities arise mainly under service and office space lease contracts. The PZU Group has a policy of concluding contracts for a specified term of 3 or 5 years, with an extension option. The following table presents future minimum lease payments under non-cancellable operating leases (undiscounted amounts).

Liabilities under minimum operating lease payments	31 December 2017	31 December 2016
Up to 1 year	307	210
1 to 5 years	698	321
Over 5 years	56	45
Total liabilities under minimum operating lease payments	**1,061**	**576**

45. Assets securing receivables, liabilities and contingent liabilities

45.1 Financial assets securing liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 December 2017	31 December 2016
Carrying amount of financial assets pledged as collateral for liabilities	10,421	748
Repurchase transactions	1,166	178
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,348	204
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	44	-
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	73	-
Lombard and technical credit	4,697	-
Other loans	652	219
Issue of covered mortgage bonds	1,577	-
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	52	2
Derivative transactions	812	145
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**10,421**	**748**

45.2 Property, plant and equipment

As at 31 December 2017, mortgage collateral on property, plant and equipment was established up to the total amount of PLN 60 million (PLN 51 million as at 31 December 2016).

(in millions of PLN)

46. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2017	31 December 2016
Contingent assets, including:	6	40
- guarantees and sureties received	6	40
Contingent liabilities	58,978	16,364
- for renewable limits in settlement accounts and credit cards	14,536	12,979
- for tranche-based loans	29,766	-
- guarantees and sureties given	7,574	1,195
- disputed insurance claims	711	429
- other disputed claims	212	195
- other, including:	6,179	52
- guaranteeing securities issues	3,492	-
- factoring	899	-
- intra-day limit	114	-
- letters of credit and commitment letters	818	-
- potential liabilities under loan agreements concluded by the Armatura Group	30	27

46.1 Granting of sureties or guarantees for loans by PZU or its subsidiaries

In 2017, 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 the equivalent to at least 10% of PZU's equity with the exception of the transaction described below.

Mandate contract on periodic granting of insurance guarantees

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

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

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

The guarantee contract contemplates contractual penalties that may be due to PZU from Alior Bank in the event of Alior Bank's breaching certain obligations stemming from the guarantee contract. The guarantee contract does not rule out the possibility of pursuing claims exceeding the sum total of the contractual penalties.

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

47. 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.

In 2017 and by the date of preparation of the consolidated financial statements, PZU Group companies did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct and indirect subsidiaries with the value of at least 10% of the equity of PZU.

As at 31 December 2017, the aggregate value of the subject matter of litigation in all 214,133 cases (134,769 cases as at 31 December 2016) pending before courts, arbitration bodies or public administration authorities in which PZU Group companies take part, was PLN 6,722 million (PLN 4,357 million as at 31 December 2016). Out of this amount, PLN 3,979 million pertained to liabilities (PLN 3,374 million as at 31 December 2016) and PLN 2,743 million pertained to claims of PZU Group companies (PLN 983 million as at 31 December 2016). That represented, respectively, 29.30% and 20.19% of PZU's equity according to PAS (as at 31 December 2016 it was 27.85% and 8.11%, respectively).

Estimations of the amounts of the provisions for individual cases take into account all information available on the date of signing the consolidated financial statements; however this figure may change in the future.

47.1 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 payment 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 enclosures was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with the adoption of resolution no. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU'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 31 December 2017, no changes have been made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)" and the funds the funds in the Company Social Benefit Fund have not been adjusted.

47.1.1. 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.

47.2 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 companies other than PZU;
- PZU and Maximus Broker cannot and could not in the past conduct competitive activity in the markets in which they operate.

On 27 March 2015, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. By judgment of 6 December 2016, following an appeal of the UOKiK President, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. On 31 July 2017, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. The judgment is not final and on 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. On 2 November 2017, PZU filed a reply to the appeal of the UOKiK President.

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

47.3 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.

47.4 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 the nominal value of PLN 21 million and 24,241,560 PBG shares with the nominal value of PLN 24 million. The carrying amount of PBG's shares as at 31 December 2017 was PLN 4 million (zero as at 31 December 2016). Bonds – on 31 December 2017 and an 31 December 2016, they were recognized in off-balance sheet records only and the carrying amount of 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).

47.5 Proceedings against Pekao for annulment and possibly repealing resolutions adopted by Pekao's Shareholder Meeting

In 2017, there was still a pending lawsuit against Pekao received from Pekao's minority shareholder for annulment and possibly repealing Resolutions no. 5 and no. 21 adopted by Pekao's Ordinary Shareholder Meeting on 19 April 2017 to approve Pekao's financial statements for 2016 and to grant a discharge to a Member of Pekao's Management Board on the performance of duties in 2016. The value of the dispute in this lawsuit identified by the plaintiff is PLN 170,989 million. Pekao believes that the lawsuit is groundless and the value of the dispute specified by the plaintiff is incorrect which was confirmed (in respect to the value of the dispute) by decision of the Regional Court in Warsaw of 5 September 2017, by the power of which the value of the dispute was set at PLN 7 thousand (this value is also valid as at 31 December 2017).

47.6 Lawsuit against Pekao and Centralny Dom Maklerski Pekao SA

A lawsuit filed by natural was pending against Pekao and its subsidiary, Centralny Dom Maklerski Pekao SA, to award damages for loss caused in connection with the purchase of shares and to provide pecuniary relief for harm caused by enforcement proceedings (the value of the dispute was PLN 206 million). In H1 2015, a judgment was handed down dismissing the claim. The plaintiffs appealed against part of the judgment, i.e. the amount of PLN 206 million. In Q3 2016, the appeal was dismissed. The plaintiffs filed a cassation appeal against the decision of the 2nd instance court. In Q4 2017, the Supreme Court refused to examine the cassation appeal and therefore the case has finally been concluded to Pekao's advantage.

48. Related party transactions

48.1 Compensation of Management Board members, senior managers and members of supervisory bodies of PZU Group companies, including profit-sharing and information on the amounts of advances, loans and guarantees granted to such persons

In 2017 and in 2016, the PZU Group companies did not grant any loans or similar benefits to members of their management boards, senior managers or members of their supervisory boards, except for the transactions described below.

The banks in the PZU Group (Pekao and Alior Bank) concluded credit and deposit transactions with members of their management and supervisory boards. The list of such transactions is presented below.

Transactions concluded by banks with members of their management and supervisory boards (000s PLN)	**31 December 2017**	**31 December 2016**
Loan receivables from clients	757	7,341
Liabilities for deposits	15,207	7,569
Other provisions	-	5
Off-balance sheet liabilities granted to clients related to financing	563	47

48.1.1. Compensation in the parent company

Compensation of Management Board members, senior managers and members of the Supervisory Board who discharged their functions for at least one day in 2017 or 2016. The figures are presented in thousands of PLN.

Compensation and other short-term employee benefits paid by PZU	**1 January – 31 December 2017** (000s PLN)		**1 January – 31 December 2016** (000s PLN)	
		including bonuses and special awards:		including bonuses and special awards:
Management Board, of which:	**6,870**	**2,042**	**6,680**	**-**
Paweł Surówka	683	74	176	-
Rodger Hodgkiss	1,171	412	634	-
Tomasz Kulik	319	-	- 1)	-
Maciej Rapkiewicz	1,152	379	581	-
Małgorzata Sadurska	421	-	n/a	n/a
Michał Krupiński	2 0862)	895	1,377	-
Andrzej Jaworski	9453)	282	434	-
Marcin Chludziński	93	-	n/a	n/a
Beata Kozłowska-Chyła	n/a	n/a	6344)	-
Robert Pietryszyn	n/a	n/a	273	-
Sebastian Klimek	n/a	n/a	5795)	-
Przemysław Dąbrowski	n/a	n/a	6836)	-
Dariusz Krzewina	n/a	n/a	6687)	-
Tomasz Tarkowski	n/a	n/a	121	-
Rafał Grodzicki	n/a	n/a	5208)	-

Compensation and other short-term employee benefits paid by PZU	1 January – 31 December 2017 (000s PLN)		1 January – 31 December 2016 (000s PLN)	
High-level managers (PZU Group Directors), including:	**5,138**	**1,381**	**4,503**	**199**
Aleksandra Agatowska	854	254	505	-
Tomasz Karusewicz	1,031	356	611	-
Bartłomiej Litwińczuk	754	122	241	-
Sławomir Niemierka	751	199	862	199
Roman Pałac	986	378	581	-
Dorota Macieja	501	-	n/a	n/a
Paweł Surówka	2619)	72	45510)	-
Tobiasz Bury	n/a	n/a	70611)	-
Przemysław Henschke	n/a	n/a	54212)	-
Supervisory Board, of which:	**1,344**	**-**	**1,241**	**-**
Paweł Górecki	131	-	n/a	n/a
Alojzy Nowak	154	-	120	-
Marcin Chludziński	133	-	119	-
Agata Górnicka	133	-	n/a	n/a
Katarzyna Lewandowska	115	-	n/a	n/a
Robert Śnitko	105	-	n/a	n/a
Maciej Zaborowski	146	-	143	-
Bogusław Banaszak	142	-	n/a	n/a
Marcin Gargas	18	-	167	-
Aneta Fałek	114	-	n/a	n/a
Paweł Kaczmarek	48	-	191	-
Eligiusz Krześniak	13	-	119	-
Jerzy Paluchniak	39	-	118	-
Piotr Paszko	13	-	119	-
Radosław Potrzeszcz	13	-	119	-
Łukasz Świerżewski	27	-	n/a	n/a
Zbigniew Ćwiąkalski	n/a	n/a	3	-
Zbigniew Derdziuk	n/a	n/a	2	-
Dariusz Filar	n/a	n/a	2	-
Dariusz Kacprzyk	n/a	n/a	2	-
Jakub Karnowski	n/a	n/a	2	-
Aleksandra Magaczewska	n/a	n/a	2	-
Maciej Piotrowski	n/a	n/a	2	-
Piotr Walkowiak	n/a	n/a	11	-

1) in 2016 he received compensation from PZU Życie only; amount presented in the next table
2) including non-competition fee of PLN 600 thousand
3) including non-competition fee of PLN 276 thousand
4) including non-competition fee of PLN 55 thousand
5) including non-competition fee of PLN 111 thousand
6) including non-competition fee of PLN 332 thousand
7) including non-competition fee of PLN 55 thousand
8) including non-competition fee of PLN 312 thousand
9) compensation for the period of discharging the PZU Group Director’s function until 12 April 2017
10) including compensation for being an Advisor to the PZU Management Board: PLN 345 thousand from 24 April 2016 to 31 October 2016
11) including non-competition fee of PLN 371 thousand
12) including non-competition fee of PLN 312 thousand

Compensation and other short-term employee benefits paid by other PZU Group entities	1 January – 31 December 2017 (000s PLN)		1 January – 31 December 2016 (000s PLN)	
		including bonuses and special awards:		including bonuses and special awards:
Management Board, of which:	**2,835**	**801**	**4 031**	-
Paweł Surówka	499	214	329	-
Rodger Hodgkiss	491	214	599	-
Tomasz Kulik	840	103	206	-
Maciej Rapkiewicz	446	135	208	-
Michał Krupiński	67[1)]	-	-	-
Andrzej Jaworski	492[2)]	135	208	-
Beata Kozłowska-Chyła	n/a	n/a	329[3)]	-
Robert Pietryszyn	n/a	n/a	135	-
Sebastian Klimek	n/a	n/a	208[4)]	-
Przemysław Dąbrowski	n/a	n/a	368[5)]	-
Dariusz Krzewina	n/a	n/a	360[6)]	-
Tomasz Tarkowski	n/a	n/a	801[7)]	-
Rafał Grodzicki	n/a	n/a	280[8)]	-
High-level managers (PZU Group Directors), including:	**3,030**	**706**	**2,332**	**107**
Aleksandra Agatowska	509	137	272	-
Tomasz Karusewicz	604	192	329	-
Bartłomiej Litwińczuk	455	66	147	-
Sławomir Niemierka	539	107	599	107
Roman Pałac	604	204	313	-
Dorota Macieja	319	-	n/a	n/a
Tobiasz Bury	n/a	n/a	380[9)]	-
Przemysław Henschke	n/a	n/a	292[10)]	-
Supervisory Board, of which:	**3**	**-**	**-**	**-**
Ryszard Wawryniewicz	3	-	n/a	n/a

[1)] compensation for discharging the function of a member of Alior Bank's Supervisory Board from 1 January 017 to 14 June 2017
[2)] including non-competition fee of PLN 149 thousand (PZU Życie)
[3)] including non-competition fee of PLN 119 thousand (PZU Życie)
[4)] including non-competition fee of PLN 138 thousand (PZU Życie)
[5)] including non-competition fee of PLN 179 thousand (PZU Życie)
[6)] including non-competition fee of PLN 30 thousand (PZU Życie)
[7)] including non-competition fee of PLN 150 thousand (Link4)
[8)] including non-competition fee of PLN 168 thousand (PZU Życie)
[9)] including non-competition fee of PLN 200 thousand (PZU Życie)
[10)] including non-competition fee of PLN 168 thousand (PZU Życie)

Total estimated value of non-cash benefits granted by PZU and PZU's subsidiaries	1 January – 31 December 2017 (000s PLN)	1 January – 31 December 2016 (000s PLN)
Management Board, of which:	**701**	**962**
Paweł Surówka	62	54
Rodger Hodgkiss	144	36
Tomasz Kulik	76	76
Maciej Rapkiewicz	107	101
Małgorzata Sadurska	15	n/a
Michał Krupiński	162	79
Andrzej Jaworski	135	77
Beata Kozłowska-Chyła	n/a	105
Robert Pietryszyn	n/a	51
Sebastian Klimek	n/a	66
Przemysław Dąbrowski	n/a	92
Dariusz Krzewina	n/a	126
Tomasz Tarkowski	n/a	48
Rafał Grodzicki	n/a	51
High-level managers (PZU Group Directors), including:	**924**	**605**
Aleksandra Agatowska	201	97
Tomasz Karusewicz	138	51
Bartłomiej Litwińczuk	151	51
Sławomir Niemierka	147	171
Roman Pałac	168	93
Dorota Macieja	119	n/a
Tobiasz Bury	n/a	60
Przemysław Henschke	n/a	82

48.1.2. Compensation in other PZU Group companies

Compensation paid to members of management and supervisory boards of other PZU Group companies is presented below:

Item	1 January – 31 December 2017 (000s PLN)	1 January – 31 December 2016 (000s PLN)
Management board members	89,898	44,857
Supervisory board members	5,089	2,748

(in millions of PLN)

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

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

Under a framework agreement signed on 7 August 2013, PZU and PZU Życie grant each other cash loans in PLN for a specified term of up to 12 months. The total amount of loans granted by each party may not exceed PLN 1 billion. The loans are not granted on the arm's length basis - no interest is accrued on the loans, and for granting the loan the lender is entitled to a commission in the amount of PLN 100 for each concluded loan agreement - however due to participation of both companies in the Tax Group, they are neutral from tax perspective. In 2017, PZU Życie granted one such loan (on 2 June 2017 in the amount of PLN 500 million, which was repaid on 27 June 2017).

48.3 Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 December 2017 and as at 31 December 2017		1 January – 31 December 2016 and as at 31 December 2016	
	Key management staff [1)]	Other related parties [2)]	Key management staff [1)]	Other related parties [2)]
Gross written premium				
in non-life insurance	-	4	-	3
in life insurance (including volumes in investment contracts)	-	-	-	-
Commission income	-	100 [3)]	-	-
Costs	-	2	-	-
Receivables		-		-
Liabilities	-	-	-	-
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1)] Members of the PZU Management Board and PZU Group Directors, data according to 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

48.4 Presentation of transactions with State Treasury's related parties

Transactions with subsidiaries, joint ventures and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and investment contracts. Such transactions are concluded and settled on terms and conditions available to customers, who are not related parties. Receivables from and liabilities to parties related to the State Treasury under insurance contracts are usually short-term.

Because of the usefulness of such information, the PZU Group decided to disclose the value of the written premium and volumes from investment contracts arising out of the largest transactions with the subsidiaries of the State Treasury.

Gross written premium [1] from largest customers of the PZU Group that are subsidiaries of the State Treasury

Customer	1 January – 31 December 2017	Customer	1 January – 31 December 2016
Customer 1	20	Customer 2	169
Customer 2	19	Customer 6	76
Customer 3	8	Customer 7	9
Customer 4	7	Customer 8	7
Customer 5	7	Customer 9	2

[1] This item includes gross written premium in non-life insurance (from direct insurance and inward reinsurance from entities of the customer's group), life insurance and volumes in investment contracts.

49. Headcount

The following table presents average headcount (in FTEs) in PZU Group companies.

Item	1 January – 31 December 2017	1 January – 31 December 2016
Management Boards (number of persons at the end of the reporting period)	154	76
Management	5,807	2,207
Other employees	37,349	24,735
Total	**43,310** [1]	**27,018**

[1] This figure includes Pekao headcount (17,374 FTEs).

50. Other information

50.1 Audit fee payable to the audit firm auditing the financial statements

The table below presents the amounts due to the PZU Group's audit firm (KPMG Audyt sp. z ograniczoną odpowiedzialnością sp. k., "KPMG") for the audit of financial statements of the consolidated PZU Group entities performed by KPMG, paid or payable for the period, plus VAT, determined in accordance with the accrual principle.

Item	1 January – 31 December 2017 (000s PLN)	1 January – 31 December 2016 (000s PLN)
Audit of financial statements	7,673	2,120
Other assurance services	3,568	3,440
Total	**11,241**	**5,560**

On 18 February 2014, the PZU Supervisory Board selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Warsaw, ul. Inflancka 4A, 00-189 Warsaw, entered by the National Chamber of Statutory Auditors in the list of audit firms under no. 3546 as an entity auditing financial statements for the years 2014-2016, and on 27 April 2017, the PZU Supervisory Board exercised the option of extending this cooperation to include the years 2017-2018.

50.2 Management of Pekao Pension Funds

On 16 November 2017, PTE PZU signed an agreement with Pekao and Pekao PTE for the acquisition of management of Pekao Pension Funds. The agreement is conditional upon KNF's approval for the transaction. The approval is expected in late first quarter or early second quarter of 2018. Until the provisions of the agreement are carried out, Pekao Pension Funds are managed by PTE.

The acquisition of management of Pekao Pension Funds by PTE PZU is driven by the need to ensure compliance of the PZU Group with Article 38 of the Pension Funds Act, which requires that related parties may be shareholders in one and only one pension fund company. PZU and Pekao became related parties upon the acquisition by PZU of a controlling stake of Pekao's shares referred to in section 2.4.1.

50.3 Headcount restructuring

On 9 March 2017, the PZU and PZU Życie Management Boards decided to continue the downsizing process in PZU and PZU Życie. On 22 March 2017, an agreement was concluded with the trade unions operating in PZU and PZU Życie regarding the scope and rules for conducting the downsizing process in PZU and PZU Życie. The plan assumed that group layoffs would be held during the period from 24 March to 18 December 2017 and would affect 1,944 employees and no more than 956 PZU and PZU Życie employees of various professional groups were to be laid off.

Ultimately, the restructuring affected 943 persons and 570 employees had their employment contracts terminated or entered into dissolution agreements (without prior proposal of new terms and conditions of employment) as part of the restructuring process.

In the period of 12 months ended 31 December 2017, the costs associated with the payment of benefits to the released employees amounted to PLN 39 million. As at 31 December 2017, the remaining restructuring provision amounted to PLN 24 million (for the payment of deferred severance pays).

50.4 Alior Bank's Second Public Bond Issue Program

On 23 August 2017, the Supervisory Board of Alior Bank, as requested by the Alior Bank's Management Board, gave its consent for the opening of Alior Bank's Second Public Bond Issue Program ("Program") and authorized the Alior Bank's Management Board, among others, to set out the terms and conditions of issue of individual bond series under the Program.

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

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

50.5 Inspections in PZU by the KNF Office

In the period from 14 April to 19 May 2016, an audit of operations and assets was carried out in the claims handling area. On 13 July 2016, PZU received an audit report, to which it submitted its explanations on 27 July 2016. On 18 November 2016, PZU received three post-audit recommendations, all of which were implemented by 31 January 2017.

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. In the opinion of the PZU Management Board, the results of the audit will not affect the consolidated financial statements.

50.6 Situation in Ukraine

During the 12-month period ended on 31 December 2017, Ukraine experienced noticeable improvement in the economic situation. Major achievements included: extension of cooperation with the International Monetary Fund, introduction of pension reform, an increase in the minimum wage, introduction of visa-free travel to the European Union. The government's efforts were summarized among others, by an improvement in Ukraine's position in the Doing Business rating (from 153th to 76th place), an increase in the National Bank's foreign exchange reserves (by 21% compared to 2016) and an increase in retail trade (by 8.8% compared to 2016). The factors that slowed down economic growth and had an adverse effect on the stabilization of the country included: protracted armed conflict in the eastern part of the country (according to estimates of national experts, the economic blockade of the eastern parts of Ukraine reduced GDP growth by at least 1%) and insufficient implementation speed of other reforms (privatization, land trading, anti-corruption court law). The country's growth and economic balance is also adversely affected by Ukraine's growing debt (USD 76.31 billion as at 31 December 2017), of which the largest amounts must be paid between 2018 and 2020.

The insurance market operated in an environment with a high level of costs of selling insurance products, inflation growth (up to 13.7% in 2017, compared to 12.4% in 2016), volatile exchange rates and further changes in the banking market (with 9 banks deemed insolvent in 2017 and ceasing their operations). Following the nationalization of the largest commercial bank (Privatbank), the State Treasury of Ukraine controls 51.3% of the banking sector. As a result of the above, individuals and corporations had a moderate level of confidence in the financial and insurance sector. The cyber-attack of a "Pety.A" computer virus, which in June 2017 impacted numerous state institutions and private businesses was an additional challenge for the Ukrainian economy.

Despite these circumstances, PZU Ukraine and PZU Ukraine Life, by diversifying their portfolios and sales channels, were able to respond with flexibility to market changes and fulfilled their respective sales plans in 98.4% and 122.8% (growth vs. previous year was 115% and 122%, respectively).

The Management Board of PZU, in cooperation with the management of PZU Ukraine and PZU Ukraine Life, monitors external risks and changes in Ukrainian legal regulations on an ongoing basis. Response scenarios have been prepared for market changes and control mechanisms. PZU does not intend to withdraw from the Ukrainian market. As at the date of signing of the consolidated financial statements, the PZU Management Board assumes that further activities of PZU Ukraine and PZU Ukraine Life will be continued in accordance with the adopted assumptions. However, the economic instability in Ukraine related to the armed conflict and the presidential and parliamentary elections in 2019 may adversely affect the future financial standing and performance of PZU Ukraine and PZU Ukraine Life in a manner that currently cannot be reliably predicted. These consolidated financial statements reflect the PZU Management Board's current assessment in this respect.

50.7 Tax Group Agreement

On 20 September 2017, a new Tax Group agreement was signed 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 was established for a period of 3 years – from 1 January 2018 to 31 December 2020 – and the Head of the First Mazowiecki Tax Office issued a registration decision on 21 November 2017.

Under the tax group agreement, PZU is the parent company representing the tax group. Pursuant to art. 25 sec. 1 of the CIT Act, the Tax Group performs settlements with the Tax Office on a monthly basis. PZU pays advances for corporate income tax that are due from all the companies to the Tax Office, while the companies transfer the CIT advances related to their business activities to PZU.

50.8 Subsequent events

No material events occurred after the end of the reporting period, which would have an impact on the consolidated financial statements.

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 of the Accounting Department	.... (signature)

Warsaw, 14 March 2018