Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for Q1 2017

Table of contents

Introduction

Compliance statement

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

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

Parent company's quarterly standalone financial information

Pursuant to Article 83 Section 1 of the Regulation on Current and Periodic Information, quarterly standalone financial information of the PZU Group's parent company, i.e. Powszechny Zakład Ubezpieczeń Spółka Akcyjna forms part of these condensed interim consolidated financial statements.

According to Article 45 Section 1a of the Accounting Act, the financial statements of issuers of securities admitted into trading on one of the regulated markets of the European Economic Area's states may be prepared in accordance with IFRS.

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

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

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

Period covered by these condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2017.

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

Functional and presentation currency

PZU's functional and presentation currency is the Polish zloty. The functional currency of companies with their registered office in Ukraine is the Ukrainian hryvnia and the functional currency of companies with their registered office in Lithuania, Latvia and Sweden is the euro.

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

FX rates

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

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

Currency	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016	31 March 2017	31 December 2016	31 March 2016
Euro	4.2891	4.3757	4.3559	4.2198	4.4240	4.2684
Ukrainian hryvnia	0.1484	0.1542	0.1500	0.1460	0.1542	0.1436

Going concern assumption

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

Discontinued activity

In the period of 3 months ended 31 March 2017, the PZU Group companies did not discontinue any type of activity.

Seasonal or cyclical business

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

Glossary of terms

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Bank BPH – Bank BPH SA.

EMC – EMC Instytut Medyczny SA.

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

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

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji Spółka Akcyjna.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

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

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

CGU – cash generating unit.

MCBRMOD – main corporate body responsible for making operating decisions within the meaning of IFRS 8 – Operating segments.

WSE – Warsaw Stock Exchange.

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

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

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

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 March 2017.

NBP – National Bank of Poland;

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

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

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

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

KNF Office – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (Journal of Laws of 2015 Item 1844).

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

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	million PLN 1 January – 31 March 2017	million PLN 1 January – 31 March 2016	m EUR 1 January – 31 March 2017	m EUR 1 January – 31 March 2016
Gross written premium	5,768	4,801	1,345	1,102
Net earned premium	5,072	4,317	1,183	991
Revenues from commissions and fees	267	185	62	42
Net investment result	1,674	1,057	390	243
Net insurance claims and benefits	(3,710)	(3,066)	(865)	(704)
Profit before tax	1,259	716	294	164
Profit attributable to equity holders of the Parent Company	940	492	219	113
Profit attributable to holders of non-controlling interests	67	67	16	15
Basic and diluted weighted average number of ordinary shares (in units)	863,512,144	863,489,477	863,512,144	863,489,477
Basic and diluted earnings per ordinary share (in PLN/EUR)	1.09	0.57	0.25	0.13

Data from the consolidated statement of financial position	million PLN 31 March 2017	million PLN 31 December 2016	million PLN 31 March 2016	m EUR 31 March 2017	m EUR 31 December 2016	m EUR 31 March 2016
Assets	126,733	125,345	108,283	30,033	28,333	25,369
Share capital	86	86	86	20	19	20
Equity attributable to the equity holders of the Parent Company	13,941	13,010	13,401	3,304	2,941	3,140
Non-controlling interests	4,216	4,117	2,266	999	931	531
Total equity	18,157	17,127	15,667	4,303	3,871	3,670
Basic and diluted number of ordinary shares	863,520,900	863,504,300	863,489,477	863,520,900	863,504,300	863,489,477
Book value per ordinary share (in PLN/EUR)	16.14	15.07	15.52	3.83	3.41	3.64

(in millions of PLN)

Data from the consolidated cash flow statement	million PLN 1 January – 31 March 2017	million PLN 1 January – 31 March 2016	m EUR 1 January – 31 March 2017	m EUR 1 January – 31 March 2016
Net cash flow on operating activity	(1,741)	(187)	(406)	(43)
Net cash flow on investing activity	1,954	1,542	456	354
Net cash flow on financing activity	17	(2,068)	4	(475)
Total net cash flow	230	(713)	54	(164)

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

Balance sheet data	million PLN 31 March 2017	million PLN 31 December 2016	million PLN 31 March 2016	m EUR 31 March 2017	m EUR 31 December 2016	m EUR 31 March 2016
Assets	39,179	37,419	37,190	9,285	8,458	8,713
Share capital	86	86	86	20	19	20
Total equity	13,055	12,219	12,817	3,094	2,762	3,003
Basic and diluted number of ordinary shares	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Book value per ordinary share (in PLN/EUR)	15.12	14.15	14.84	3.58	3.20	3.48

Data from the technical non-life insurance account and the non-technical profit and loss account	million PLN 1 January – 31 March 2017	million PLN 1 January – 31 March 2016	m EUR 1 January – 31 March 2017	m EUR 1 January – 31 March 2016
Gross written premium	3,696	2,714	862	623
Technical result of non-life insurance	397	90	93	21
Net investment result [1)]	37	103	9	24
Net profit	343	37	80	8
Basic and diluted weighted average number of ordinary shares (in units)	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per ordinary share (in PLN/EUR)	0.40	0.04	0.09	0.01

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

(in millions of PLN)

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

Balance sheet data	million PLN 31 March 2017	million PLN 31 December 2016	million PLN 31 March 2016	m EUR 31 March 2017	m EUR 31 December 2016	m EUR 31 March 2016
Assets	28,454	27,894	28,263	6,743	6,305	6,622
Total equity	5,208	4,810	4,556	1,234	1,087	1,067

Data from the technical life insurance account and the non-technical profit and loss account	million PLN 1 January – 31 March 2017	million PLN 1 January – 31 March 2016	m EUR 1 January – 31 March 2017	m EUR 1 January – 31 March 2016
Gross written premium	2,135	1,983	498	455
Technical life insurance result	295	399	69	92
Net investment result	435	251	101	58
Net profit	221	309	52	71

4. Summary of consolidated financial results

The net financial result of the PZU Group for the period of 3 months ended 31 March 2017 was PLN 1,007 million and was 80.1% higher than the net result in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders was PLN 940 million compared to PLN 492 million in 2016 (up 91.1%).

The net result of one-off events[1] increased 37.1% compared to last year.

ROE attributable to the parent company for the period from 1 January to 31 March 2017 was 27.9%, up 12.9 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity after 3 months ended 31 March 2017, as compared to the corresponding period of the previous year:

- higher gross written premium in the motor insurance group in the mass and corporate client segments on the coattails of the rising average premium and the number of insurance policies and in individual insurance, in particular unit-linked products in the banking channel;
- the increase in profitability in the mass insurance segment associated mainly with a decrease in the loss ratio in agricultural insurance – in the corresponding period of the previous year, occurrence of numerous losses caused by forces of nature (adverse effects of ground frost) and to a lesser extent improvement of profitability in motor TPL insurance;
- lower profitability in the corporate insurance segment, mainly in the motor own damage insurance group;
- decrease in profitability in group and individually continued insurance as a result of higher loss ratio of protection products associated with increase of the frequency of events associated with deaths, confirmed by GUS mortality data on the whole population;
- higher investment income, in particular due to better market conditions on the WSE.

Total assets and liabilities rose by approximately PLN 18 billion compared to the corresponding period of the previous year, and non-controlling interests reached PLN 4.2 billion (as at 31 March 2017), chiefly on account of Alior Bank's merger with the spunoff portion of Bank BPH that transpired on 4 November 2016.

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

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2017	1 January – 31 March 2016 (restated)
Gross written premium	9.1	5,768	4,801
Reinsurers' share in gross written premium		(93)	(54)
Net written premium		**5,675**	**4,747**
Movement in the net provision for unearned premiums		(603)	(430)
Net earned premium		**5,072**	**4,317**
Revenues from commissions and fees	9.2	267	185
Net investment income	9.3	1,303	994
Net realized result and impairment charges on investments	9.4	(213)	(91)
Net movement in the fair value of assets and liabilities measured at fair value	9.5	584	154
Other operating revenues	9.6	283	204
Claims and movement in technical provisions		(3,792)	(3,096)
Reinsurers' share in claims and movement in technical provisions		82	30
Net insurance claims and benefits	**9.7**	**(3,710)**	**(3,066)**
Costs of commissions and fees	9.8	(81)	(52)
Interest expenses	9.9	(187)	(274)
Acquisition expenses	9.10	(694)	(617)
Administrative expenses	9.10	(861)	(630)
Other operating expenses	9.11	(504)	(408)
Operating profit		**1,259**	**716**
Share of the financial results of entities measured by the equity method		-	-
Profit before tax		**1,259**	**716**
Income tax	9.13	(252)	(157)
Net profit, including:		**1,007**	**559**
- profit attributable to the equity holders of the parent company		940	492
- profit attributable to holders of non-controlling interests		67	67

Basic and diluted weighted average number of ordinary shares	9.12	863,512,144	863,489,477
Basic and diluted earnings per ordinary share (in PLN)	9.12	1.09	0.57

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2017	1 January – 31 March 2016
Net profit		1,007	559
Other comprehensive income	9.13	7	(9)
Subject to subsequent transfer to the profit and loss account		7	(9)
Measurement of financial instruments available for sale		56	(8)
Foreign exchange translation differences		(54)	-
Net cash flow hedging		5	(1)
Not to be reclassified to the profit and loss account in the future		-	-
Total net comprehensive income		**1,014**	**550**
- comprehensive income attributed to the equity holders of the parent company		928	478
- comprehensive income attributed to holders of non-controlling interests		86	72

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	31 March 2017	31 December 2016	31 March 2016 (restated)	1 January 2016 (restated)
Goodwill	9.14	1,559	1,583	1,537	1,532
Intangible assets		1,439	1,463	1,364	1,393
Other assets	9.15	806	871	891	813
Deferred acquisition expenses		1,457	1,407	1,224	1,154
Reinsurers' share in technical provisions	9.22	1,003	990	1,050	1,097
Property, plant and equipment		1,434	1,467	1,285	1,300
Investment properties		1,745	1,738	1,219	1,172
Entities measured by the equity method	9.16	37	37	54	54
Financial assets		105,809	105,300	89,339	89,229
Held to maturity	9.17.1	19,272	17,346	17,512	17,370
Available for sale	9.17.2	8,950	11,635	8,208	7,745
Measured at fair value through profit or loss	9.17.3	22,221	21,882	20,585	20,648
Hedge derivatives		61	72	161	140
Borrowings	9.17.4	55,305	54,365	42,873	43,326
Deferred tax assets		671	624	407	369
Receivables	9.19	6,347	5,703	6,707	3,338
Cash and cash equivalents		3,140	2,973	1,710	2,440
Assets held for sale	9.21	1,286	1,189	1,496	1,506
Total assets		**126,733**	**125,345**	**108,283**	**105,397**

Liabilities and equity	Note	31 March 2017	31 December 2016	31 March 2016 (restated)	1 January 2016 (restated)
Equity					
Equity attributable to the equity holders of the Parent Company		13,941	13,010	13,401	12,924
Share capital		86	86	86	86
Other equity		10,860	10,869	10,127	10,142
Retained earnings		2,995	2,055	3,188	2,696
Retained earnings		2,055	108	2,696	2,696
Net profit		940	1,947	492	-
Non-controlling interests		4,216	4,117	2,266	2,194
Total equity		**18,157**	**17,127**	**15,667**	**15,118**
Liabilities					
Technical provisions	9.22	43,010	42,194	41,405	41,280
Provisions for employee benefits		138	128	146	117
Other provisions	9.23	349	367	111	108
Deferred tax liability		752	469	642	509
Financial liabilities	9.24	59,074	60,030	44,156	44,695
Other liabilities	9.25	5,210	4,997	6,156	3,570
Liabilities related directly to assets classified as held for sale	9.21	43	33	-	-
Total liabilities		**108,576**	**108,218**	**92,616**	**90,279**
Total liabilities and equity		**126,733**	**125,345**	**108,283**	**105,397**

(in millions of PLN)

4. Interim statement of changes in consolidated equity

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company									Non-controlling interests	Total equity
		Other equity					Retained earnings		Total			
		Treasury 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			
Balance as at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,055**	**-**	**13,010**	**4,117**	**17,127**
Measurement of financial instruments available for sale	-	-	-	40	-	-	-	-	-	40	16	56
Cash flow hedging transactions	-	-	-	2	-	-	-	-	-	2	3	5
Foreign exchange translation differences	-	-	-	-	-	-	(54)	-	-	(54)	-	(54)
Total other net comprehensive income	**-**	**-**	**-**	**42**	**-**	**-**	**(54)**	**-**	**-**	**(12)**	**19**	**7**
Net profit (loss)	-	-	-	-	-	-	-	-	940	940	67	1,007
Total comprehensive income	**-**	**-**	**-**	**42**	**-**	**-**	**(54)**	**-**	**940**	**928**	**86**	**1,014**
Other changes, including:	**-**	**1**	**3**	**(1)**	**-**	**-**	**-**	**-**	**-**	**3**	**13**	**16**
Transactions on treasury stock	-	1	-	-	-	-	-	-	-	1	-	1
Transactions with holders of non-controlling interests	-	-	2	-	-	-	-	-	-	2	13	15
Sale of revalued real estate	-	-	1	(1)	-	-	-	-	-	-	-	-
As at 31 March 2017	**86**	**-**	**10,761**	**147**	**5**	**3**	**(56)**	**2,055**	**940**	**13,941**	**4,216**	**18,157**

(in millions of PLN)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity	Share capital	Equity attributable to the equity holders of the Parent Company									Non-controlling interests	Total equity
		Other equity					Retained earnings		Total			
		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			
Balance as at 1 January 2016	**86**	**-**	**9,947**	**241**	**-**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of financial instruments available for sale	-	-	-	(104)	-	-	-	-	-	(104)	(40)	(144)
Cash flow hedging	-	-	-	(9)	-	-	-	-	-	(9)	(22)	(31)
Foreign exchange translation differences	-	-	-	-	-	-	40	-	-	40	-	40
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	7	-	-	-	7	-	7
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total other net comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**-**	**(63)**	**(62)**	**(125)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,947	1,947	470	2,417
Total comprehensive income	**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**1,947**	**1,884**	**408**	**2,292**
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 stock		(1)	-	-	-	-	-	-	-	(1)	-	(1)
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(1)	-	-	-	-	-	-	(1)	(13)	(14)
Sale of revalued real estate	-	-	25	(25)	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**108**	**1,947**	**13,010**	**4,117**	**17,127**

(in millions of PLN)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity (restated)	Share capital	Equity attributable to the equity holders of the Parent Company								Non-controlling interests	Total equity
		Other equity					Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
Balance as at 1 January 2016	**86**	**-**	**9,947**	**241**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of financial instruments available for sale	-	-	-	(14)	-	-	-	-	(14)	6	(8)
Cash flow hedging transactions	-	-	-	-	-	-	-	-	-	(1)	(1)
Total other net comprehensive income	**-**	**-**	**-**	**(14)**	**-**	**-**	**-**	**-**	**(14)**	**5**	**(9)**
Net profit (loss)	-	-	-	-	-	-	-	492	492	67	559
Total comprehensive income	**-**	**-**	**-**	**(14)**	**-**	**-**	**-**	**492**	**478**	**72**	**550**
Other changes, including:	**-**	**(1)**	**1**	**(1)**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Transactions on treasury stock	-	(1)	-	-	-	-	-	-	(1)	-	(1)
Sale of revalued real estate	-	-	1	(1)	-	-	-	-	-	-	-
As at 31 March 2016	**86**	**(1)**	**9,948**	**226**	**(4)**	**(42)**	**2,696**	**492**	**13,401**	**2,266**	**15,667**

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 31 March 2017	1 January – 31 March 2016
Profit before tax	1,259	716
Adjustments	(3,000)	(903)
Movement in loan receivables from clients	(1,920)	(1,839)
Movement in liabilities under deposits	(843)	1,793
Movement in valuation of real properties measured at fair value	(584)	(154)
Interest revenues	(300)	(676)
Realized gains/losses on investment activity and impairment charges	213	91
Result on foreign exchange differences	(144)	10
Movement in deferred acquisition expenses	(50)	(69)
Amortization of intangible assets and property, plant and equipment	127	105
Movement in reinsurers' share in technical provisions	(13)	47
Movement in technical provisions	816	125
Movement in receivables	(522)	(80)
Movement in liabilities	412	(74)
Cash flow on investment contracts	(31)	(36)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(83)	19
Income tax paid	(269)	(148)
Other adjustments	191	(17)
Net cash flow on operating activity	**(1,741)**	**(187)**
Cash flow on investing activity		
Proceeds	237,100	215,578
- sale of investment properties	2	6
- proceeds from investment properties	76	65
- sale of intangible assets and components of property, plant and equipment	21	3
- sale of ownership interests and shares	1,076	997
- realization of debt securities	46,973	30,494
- closing of buy-sell-back transactions	89,395	89,034
- closing of term deposits in credit institutions	56,793	71,663
- realization of other investments	42,592	23,216
- interest received	147	92
- dividends received	1	1
- cash acquired in business combinations and when changing the scope of consolidation	22	-
- other investment proceeds	2	7

(in millions of PLN)

Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 31 March 2017	1 January – 31 March 2016
Expenditures	(235,146)	(214,036)
- purchase of investment properties	(12)	(77)
- expenditures for the maintenance of investment properties	(48)	(44)
- purchase of intangible assets and components of property, plant and equipment	(122)	(141)
- purchase of ownership interests and shares	(537)	(944)
- purchase of ownership interests and shares in subsidiaries	-	(344)
- decrease in cash due to a change in the scope of consolidation	(6)	-
- purchase of debt securities	(46,179)	(30,796)
- opening of buy-sell-back transactions	(87,905)	(86,913)
- purchase of term deposits in credit institutions	(56,069)	(71,414)
- purchase of other investments	(44,265)	(23,362)
- other expenditures for investments	(3)	(1)
Net cash flow on investing activity	**1,954**	**1,542**
Cash flow on financing activity		
Proceeds	67,004	81,802
- proceeds from loans and borrowings	-	15
- proceeds from the issue of own debt securities	-	44
- opening of sell-buy-back transactions	67,004	81,743
Expenditures	(66,987)	(83,870)
- repayment of loans and borrowings	(5)	(1)
- closing of sell-buy-back transactions	(66,969)	(83,843)
- interest on loans and borrowings	(1)	(2)
- interest on outstanding debt securities	(12)	(10)
- other financial expenditures	-	(14)
Net cash flow on financing activity	**17**	**(2,068)**
Total net cash flow	**230**	**(713)**
Cash and cash equivalents at the beginning of the period	2,973	2,440
Movement in cash due to foreign exchange differences	(63)	(17)
Cash and cash equivalents at the end of the period, including:	3,140	1,710
- restricted cash	20	80

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

According to the Polish Classification of Business Activity (PKD), the core business of PZU consists of other casualty insurance and property insurance (PKD 65.12) and according to the European Classification of Business Activity – non-life insurance (EKD 6603).

(in millions of PLN)

1.2 PZU Group companies

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2017	31 December 2016	
Consolidated companies						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Alior Bank Group						
10	Alior Bank SA	Warsaw	18.12.2015	29.22%	29.45%	Banking services. https://www.aliorbank.pl/
11	Alior Services sp. z o.o.	Warsaw	18.12.2015	29.22%	29.45%	Other activity supporting financial services, excluding insurance and pension funds.
12	Centrum Obrotu Wierzytelnościami sp. z o.o.	Kraków	18.12.2015	29.22%	29.45%	Debt trading.
13	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	29.22%	29.45%	Lease services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
14	Meritum Services ICB SA	Gdańsk	18.12.2015	29.22%	29.45%	IT services.
15	Money Makers TFI SA	Warsaw	18.12.2015	17.19% [1)]	17.33% [1)]	Asset management services and management of Alior SFIO subfunds. http://www.moneymakers.pl
16	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	29.22%	29.45%	No business conducted.
17	Absource sp. z o.o.	Kraków	04.05.2016	29.22%	29.45%	Provision of IT services.
18	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	29.22%	n/a	Brokerage activity.

(in millions of PLN)

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2017	31 December 2016	
Consolidated companies – other companies						
19	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
20	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
21	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
22	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
23	PZU Finance AB (publ.)	Stockholm, Sweden	02.06.2014	100.00%	100.00%	Financial services.
24	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and bookkeeping services.
25	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Other service activity.
26	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/
27	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services. https://www.pzu.pl/grupa-pzu/pzu-zdrowie-sa
28	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
29	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
30	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/
31	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/
32	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
33	Rezo-Medica sp. z o.o.	Płock	23.04.2015	100.00%	100.00%	Medical services. http://rezo-medica.pl/
34	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
35	Medicus w Opolu sp. z o.o.	Opole	30.09.2015	100.00%	100.00%	Medical services. http://medicus.opole.pl/
36	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
37	Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.medycynapracy.com.pl/

(in millions of PLN)

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2017	31 December 2016	
Consolidated companies – other companies – continued						
38	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
39	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
40	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
41	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
42	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	No business conducted.
43	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
44	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
45	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
46	L4C sp. z o.o. in liquidation [2)]	Warsaw	15.09.2014	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
47	Armatura Kraków SA	Kraków	07.10.1999	100.00%	100.00%	Distribution of Armatura Group products, administration and management of the group. http://www.grupa-armatura.pl/
48	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	Production and sale of radiators and sanitary fittings.
49	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
50	Aquaform Badprodukte GmbH	Anhausen, Germany	15.01.2015	100.00%	100.00%	Wholesale trade.
51	Aquaform Ukraine TOW	Zhytomyr, Ukraine	15.01.2015	100.00%	100.00%	Wholesale trade.
52	Aquaform Romania SRL	Prejmer, Romania	15.01.2015	100.00%	100.00%	Wholesale trade.
53	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
54	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
55	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
56	PZU FIZ Sektora Nieruchomości [3)]	Warsaw	01.07.2008	n/a	n/a	as above
57	PZU FIZ Sektora Nieruchomości 2 [3)]	Warsaw	21.11.2011	n/a	n/a	as above

(in millions of PLN)

No.	Name of the company	Registered office	Date of obtaining control / significant influence	% of share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2017	31 December 2016	
Consolidated companies – mutual funds – continued						
58	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
59	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
60	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	as above
61	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	as above
62	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
63	PZU Sejf+	Warsaw	30.09.2015	n/a	n/a	as above
64	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
65	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	as above
66	PZU Telekomunikacja Media Technologia	Warsaw	07.09.2016	n/a	n/a	as above
67	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	as above
68	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	as above
69	PZU Energia Medycyna Ekologia [Energy Medicine Environment]	Warsaw	01.01.2017	n/a	n/a	as above
70	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
Associates						
71	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration.
72	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [4]	28.31% [4]	Human health protection, research and development in the medical sciences and pharmaceutical practice.

[1] Direct subsidiary of Alior Bank, in which Alior Bank holds a 58.84% stake. As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.
[2] On 16 May 2017, the general meeting adopted a resolution to open the liquidation of the company.
[3] As at 31 March 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).
[4] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 31 March 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.

As at 31 March 2017, besides the companies listed in the table the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

(in millions of PLN)

1.3 Non-controlling interests

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

Name of the company	31 March 2017	31 December 2016	31 March 2016
Alior Bank	70.78%	70.55%	70.78%
Gamma	39.54%	39.54%	39.54%
Proelmed	43.00%	43.00%	43.00%
SU Krystynka	0.91%	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%	0.66%
AAS Balta	0.01%	0.01%	0.01%
Lietuvos Draudimas AB	0.00%	0.00%	0.02%

The carrying amount of Alior Bank's non-controlling interest as at 31 March 2017 was PLN 4,211 million (as at 31 December 2016 it was PLN 4,111 million, as at 31 March 2016 it was PLN 2,261 million).

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

Assets	31 March 2017	31 December 2016	31 March 2016 (restated)
Intangible assets	671 [1)]	666 [1)]	571 [1)]
Other assets	78	73	179
Property, plant and equipment	484	486	224
Financial assets	55,440	57,092	38,913
Held to maturity	221	220	-
Available for sale	6,789	9,505	6,198
Measured at fair value through profit or loss	387	419	360
Hedge derivatives	61	72	161
Borrowings	47,982 [1)]	46,876 [1)]	32,194 [1)]
Deferred tax assets	626 [1)]	594 [1)]	384 [1)]
Receivables	785	815	469
Cash and cash equivalents	1,990	1,126	905
Assets held for sale	-	1	1
Total assets	**60,074**	**60,853**	**41,646**

Liabilities and equity	31 March 2017	31 December 2016	31 March 2016 (restated)
Equity			
Equity attributable to the equity holders of the Parent Company	5,949	5,827	3,194
Share capital	1,293	1,293	727
Other equity	4,325	4,298	2,799
Retained earnings	331 [1)]	236 [1)]	(332)
Non-controlling interests	1	1	1
Total equity	**5,950**	**5,828** [1)]	**3,195**
Liabilities			
Provisions for employee benefits	38	43	36
Other provisions	258	276	14
Financial liabilities	52,521	53,266	37,484
Other liabilities	1,307 [1)]	1,440 [1)]	917 [1)]
Total liabilities	**54,124**	**55,025**	**38,451**
Total liabilities and equity	**60,074**	**60,853**	**41,646**

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

(in millions of PLN)

Profit and loss account	1 January – 31 March 2017	1 January – 31 March 2016 (restated)
Revenues from commissions and fees	215	138
Net investment income [1]	912	746
Net realized result and impairment charges on investments	(209)	(157)
Net movement in the fair value of assets and liabilities measured at fair value	(5)	2
Other operating revenues	40	21
Costs of commissions and fees	(78)	(51)
Interest expenses	(171)	(251)
Administrative expenses [2]	(464)	(253)
Other operating expenses [3]	(106)	(72)
Operating profit [1] [2] [3]	**134**	**123**
Profit before tax [1] [2] [3]	**134**	**123**
Income tax	(38)	(29)
Net profit [1] [2] [3]	**96**	**94**

[1] Including PLN 23 million (in Q1 2016: PLN 26 million) of positive impact from the differences in interest income on the loan portfolio carried at fair value as at the date of acquisition of Alior Bank.
[2] Including PLN 3 million (in Q1 2016: PLN 5 million) due to the settlement of a liability arising from unfavorable (liability-generating) real property lease agreements recognized as a result of the acquisition of Alior Bank.
[3] Including PLN 9 million (in Q1 2016: PLN 14 million) of costs resulting from amortization of intangible assets (relations with clients holding current accounts) resulting from the acquisition of Alior Bank.

Statement of comprehensive income	1 January – 31 March 2017	1 January – 31 March 2016
Net profit	96	94
Other comprehensive income – subject to subsequent transfer to the profit and loss account	27	7
Measurement of financial instruments available for sale	23	9
Net cash flow hedging	4	(2)
Total net comprehensive income	**123**	**101**

Cash flow statement	1 January – 31 March 2017	1 January – 31 March 2016
Net cash flow on operating activity	478	(1,196)
Net cash flow on investing activity	(58)	(71)
Net cash flow on financing activity	(14)	43
Total net cash flow	**406**	**(1,224)**

Alior Bank did not pay out any dividend neither in the period from 1 January to 31 March 2017 nor in 2016.

The table below presents additionally the PZU Group profit and loss account for the period from 1 January to 31 March 2017 presenting the effect of excluding Alior Bank as a subsidiary subject to consolidation.

Consolidated profit and loss account	PZU Group	Exclusion of Alior Bank data	Elimination of consolidation adjustments	Group without Alior Bank
Gross written premium	5,768	-	3	5,771
Reinsurers' share in gross written premium	(93)	-	-	(93)
Net written premium	**5,675**	**-**	**3**	**5,678**
Movement in the net provision for unearned premiums	(603)	-	-	(603)
Net earned premium	**5,072**	**-**	**3**	**5,075**
Revenues from commissions and fees	267	(215)	-	52
Net investment income	1,303	(912)	3	394
Net realized result and impairment charges on investments	(213)	209	-	(4)
Net movement in the fair value of assets and liabilities	584	5	-	589

(in millions of PLN)

Consolidated profit and loss account	PZU Group	Exclusion of Alior Bank data	Elimination of consolidation adjustments	Group without Alior Bank
measured at fair value				
Other operating revenues	283	(40)	-	243
Claims and movement in technical provisions	(3,792)	-	-	(3,792)
Reinsurers' share in claims and movement in technical provisions	82	-	-	82
Net insurance claims and benefits	**(3,710)**	**-**	**-**	**(3,710)**
Costs of commissions and fees	(81)	78	-	(3)
Interest expenses	(187)	171	(3)	(19)
Acquisition expenses	(694)	-	-	(694)
Administrative expenses	(861)	464	(3)	(400)
Other operating expenses	(504)	106	-	(398)
Operating profit (loss)	**1,259**	**(134)**	**-**	**1,125**
Profit (loss) before tax	**1,259**	**(134)**	**-**	**1,125**
Income tax	(252)	38	-	(214)
Net profit (loss)	**1,007**	**(96)**	**-**	**911**

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

Changes to the consolidation of mutual funds

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

On account of losing control over the PZU Akcji Spółek Dywidendowych fund, as of 1 January 2017, this fund was taken out of consolidation.

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

2. Shareholder structure

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

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage share in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	43,260,000 [1)]	5.0097%
3	Other shareholders	525,045,700	60.8028%
Total		**863,523,000**	**100.00%**

[1)] In accordance with Current Report No. 37/2017 on the list of shareholders holding at least 5% of votes at the Extraordinary Shareholder Meeting of PZU SA which started on 12 April and ended on 13 April 2017.

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

In the period from 1 January 2017 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

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

Neither as at the date of conveying this periodic report nor as at the date of conveying the annual report for 2016 (i.e. 15 March 2017) did any of the members of the Management Board or the Supervisory Board or the Directors of the PZU Group hold any PZU shares or rights to PZU shares.

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

3.1 Composition of the parent company's Management Board

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

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

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

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

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

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

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

3.2 Composition of the parent company's Supervisory Board

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

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

- Piotr Paszko – Supervisory Board Member;
- Radosław Potrzeszcz – Supervisory Board Member.

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

On 8 February 2017 the PZU ESM dismissed Marcin Gargas, Piotr Paszka 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 the Deputy Chairman of the PZU Supervisory Board, and Alojzy Nowak assumed the function of the Secretary.

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

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

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

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

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

3.3 PZU Group Directors

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

From 15 March 2017 to the date of conveying this periodic report, the following persons were PZU Group Directors:

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

4. Key accounting principles (accounting policy)

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

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

(in millions of PLN)

4.1.1. Amendments to the applied IFRS

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

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

4.1.1.2. Standards, interpretations and amended standards not yet effective

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

- Approved by the European Commission:

Standard / interpretation	Date of entry into effect 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. Due to the inapplicability to the PZU Group’s insurance companies, the effect of application of the new standard on the PZU Group’s comprehensive income and equity has not been estimated.

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

Standard / interpretation	Date of entry into effect for annual periods starting from	Regulation approving the standard or interpretation	Commentary
			Financial liabilities Valuation of financial liabilities does change significantly, except for the necessity to recognize changes in the fair value resulting from changes of own credit risk in other comprehensive income. Impairment IFRS 9 introduces an obligation to recognize not only incurred losses, as in the case of IAS 39, but also expected losses. Debt assets carried at amortized cost and fair value through other comprehensive income, impairment is measured as 12-month or life-long expected credit losses. Change of the approach will have significant consequences in the case of modelling of the credit risk parameters and final amount of the charges made. The loss identification period and IBNR charge will be no longer used. The charge will be calculated in 3 categories: • basket 1 – basket with low credit risk – 12-month expected credit loss will be recognized; • basket 2 – the portfolio in which a significant increase of credit risk occurs – a life-long expected credit loss will be recognized; • basket 3 – impaired loans – a life-long expected credit loss will be recognized. The method of calculation of the impairment charge will also impact the method of recognizing the interest revenue – for baskets 1 and 2 it will be determined on the basis of gross exposures, and in basket 3 on the net basis. Hedge accounting On the date of implementation of IFRS 9 it is possible to opt to continue application of the hedge accounting requirements in accordance with IAS 39. In such a case, consistency of the applied hedging links with the risk management strategy should be ensured. Additionally, IFRS 9 increases the range of the positions that can be defined as hedged positions, makes it possible to determine financial assets or liabilities carried at fair value through profit or loss as a hedging instrument, waives the obligation to retrospectively measure the effectiveness of the hedging, increases the scope of the required disclosures pertaining to the strategy for management of the risk of cash flows following from hedging transactions and impact of the hedge accounting on the financial statements. The PZU Group reviews the financial assets and their allocation to the appropriate business model. Implementation of IFRS 9 may result in changes to classification of certain financial assets (in particular the necessity to carry certain loan receivables at fair value as they do not pas the SPPI test). Introduction of the new impairment model will impact the amount of the impairment charges in the PZU Group, particularly as regards the exposures classified as basket 2. As at the date of implementation of IFRS 9, the one-off change resulting from adoption of the new models will be recognized in capital.

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods starting from	Regulation approving the standard or interpretation	Commentary
			At this stage, it is not possible to estimate the effect of application of IFRS 9 on the PZU Group's comprehensive income and equity.

- Not approved by the European Commission:

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
Amendment to IFRS 4 – Application of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts'	12 September 2016	1 January 2018	In accordance with the amendment to IFRS 4 issued by the International Accounting Standards Board on 12 September 2016, insurance companies may defer the implementation of IFRS 9 until the entry into force of IFRS 4 Phase II concerning insurance contracts, but by no later than 1 January 2021, however the PZU Group may take advantage of this exemption due to the significant share of banking activity.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016 [1)]	Enabling entities applying IFRS for the first time, which currently recognize regulatory deferral account balances in accordance with their previous, generally accepted accounting standards to continue recognizing these balances after switching to IFRS. This standard does not apply to the PZU Group.
Clarifications to IFRS 15 – revenue from contracts with customers	12 April 2016	1 January 2018	The clarifications provide guidelines concerning the identification of the obligations to fulfil benefits (determining in which instances the promises set forth in a contract constitute "separate" goods or services that should be settled separately), accounting for intellectual property licenses (determining in which situations revenues from intellectual property licenses should be settled "over a certain period" and in which situations "at a given point in time") and the distinctions between a principal and an agent (stating more precisely that a principal under a given determination controls a good or service prior to turning it over to a client). Changes to the standard also include additional practical solutions facilitating the implementation of the new standard.

(in millions of PLN)

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
IFRS 16 – Leases	13 January 2016	1 January 2019	IFRS 16 replaces IAS 17 'Leases' and the interpretations related to the latter standard. In respect of lessees, the new standard eliminates the distinction between financial leases and operating leases. The recognition of current operating leases in the statement of financial position will result in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of lease payments). The rights to use the leased object will be subject to amortization and interest will be charged on the liabilities. This will generate greater costs at the initial stage of the lease, even if the parties have agreed on fixed annual payments. The recognition of lease agreements on the lessor's side will in most cases remain unchanged due to the continued existence of the distinction between operating lease agreements and financial lease agreements. Due to the remote effective date of the new standard, the effect of its application on the comprehensive income and equity has not yet been estimated.
Amendment to IAS 7 – Disclosure Initiative	29 January 2016	1 January 2017	Te amendment results in the presentation of disclosures enabling an assessment of changes in the value of liabilities created as part of financial activity (resulting from either cash flows or changes of a non-cash flow nature). The application of these requirements will require the inclusion of additional disclosures in the PZU Group's consolidated financial statements.
The amendment to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	The amendment clarifies, among others, that unrealized losses related to debt instruments measured at fair value for which the tax value is their initial cost may give rise to negative temporary differences. The change will not affect the PZU Group's consolidated financial statements.
Amendment to IFRS 2 – Classification and valuation of share-based payment	20 June 2016	1 January 2018	The amendment provides guidance harmonizing accounting requirements for share-based payments settled in cash which adopt the same approach as that applied in the case of share-based payments settled in equity instruments, and contains an exception to IFRS 2 and clarification of situations where share-based payments settled in cash are changed to share-based payments settled in equity instruments due to changes in contractual provisions. The change will not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

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 IFRS 10 and IFRS 28 – Sale or transfer of assets between the investor and an associate or a joint venture	11 September 2014	Deferred indefinitely	The main consequence of the amendment is the recognition of the whole profit or loss in a situation where the transaction concerns an organized business (regardless of whether or not it is located in a subsidiary), whereas partial profits or losses are recognized in the transaction concerns separate assets that do not form an organized business, even if they are located in a subsidiary. The amendments did not affect the PZU Group's consolidated financial statements.
The amendment to IAS 40 – Transfers of Investment Property	8 December 2016	1 January 2018	The amendment clarifies when the entity should transfer properties under construction to or from the investment property category in the event of change of the nature of the use of such property in situations other than specifically listed in IAS 40. The change will not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2014-2016	8 December 2016	1 January 2017 1 January 2018	The amendments pertain to: 1. IFRS 1 – waiver of exemptions for first time adopters as regards certain disclosures; 2. IFRS 12 – disclosures pertaining to assets classified as held for sale or discontinued operations in accordance with IFRS 5; 3. IAS 28 – as regards the election by specified entities to measure at fair value through profit or loss interests in associates and joint ventures in accordance with IFRS 9. The amendments did not affect the PZU Group's consolidated financial statements.
IFRIC interpretation 22 – Foreign Currency Transactions and Advance Consideration	8 December 2016	1 January 2018	The interpretation clarifies that the exchange rate should be applied in recognising a transaction denominated in a foreign currency in accordance with IAS 21 if the client makes a non-refundable payment of an advance consideration for delivery of goods or services. The interpretation will not affect the PZU Group's consolidated financial statements.

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

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

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

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

Change of the presentation of 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.

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

The amendments described in this item were taken into consideration in the consolidated financial statements. To ensure comparability, in the interim consolidated financial the data for Q1 2016 were restated accordingly.

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

To improve the clarity of the condensed interim consolidated financial statements, all amounts were presented in millions of PLN, instead of in thousands of PLN, as has been done so far. As a consequence of conversion of thousands into millions of PLN some amounts may differ from the amounts presented in the condensed interim consolidated financial statements for Q1 2016 due to rounding.

4.2.2.2. Change of the segment reporting presentation method

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

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

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

4.2.2.4. Settlement of the Alior Bank share purchase transaction

Due to the completion of the final settlement of the Alior Bank share purchase transaction, a retroactive restatement of data as at 31 March 2016 has been performed.

(in millions of PLN)

4.2.2.5. Change in the presentation of liabilities on borrowed securities

Liabilities on borrowed securities in the consolidated financial statements are presented in the line item "Financial liabilities" instead of "Other liabilities". In these condensed interim consolidated financial statements a pertinent restatement of comparative data was carried out as at 31 March 2016 and 1 January 2016.

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

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

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

Assets	31 March 2016 *(historical)*	Adjustment	31 March 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Goodwill	1,512	25 [2]	1,537	1,507	25 [2]	1,532
Other assets	780	111 [1]	891	699	114 [1]	813
Estimated salvage and subrogation	111	(111) [1]	item deleted	114	(114) [1]	item deleted
Deferred tax assets	393	14 [2]	407	349	20 [2]	369
Financial assets – borrowings	42,924	(51) [2]	42,873	43,403	(77) [2]	43,326
Receivables	6,586	121 [1]	6,707	3,271	67 [1]	3,338
Current income tax receivables	121	(121) [1]	item deleted	67	(67) [1]	item deleted
Total assets	**108,295**	**(12)**	**108,283**	**105,429**	**(32)**	**105,397**

Liabilities and equity	31 March 2016 *(historical)*	Adjustment	31 March 2016 *(restated)*	1 January 2016 *(historical)*	Adjustment	1 January 2016 *(restated)*
Non-controlling interests	2,310	(44) [2]	2,266	2,255	(61) [2]	2,194
Net profit	486	6 [2]	492			
Total equity	**15,705**	**(38)**	**15,667**	**15,179**	**(61)**	**15,118**
Financial liabilities	43,714	442 [3]	44,156	44,488	207 [3]	44,695
Other liabilities	6,537	26 [2] 35 [1] (442) [3]	6,156	3,679	29 [2] 69 [1] (207) [3]	3,570
Current income tax liabilities	35	(35) [1]	item deleted	69	(69) [1]	item deleted
Total liabilities	**92,590**	**26**	**92,616**	**90,250**	**29**	**90,279**
Total liabilities and equity	**108,295**	**(12)**	**108,283**	**105,429**	**(32)**	**105,397**

[1] Change described in item 4.2.2.3.
[2] Change described in item 4.2.2.4.
[3] Change described in item 4.2.2.5.

(in millions of PLN)

Consolidated profit and loss account	1 January – 31 March 2016 *(historical)*	Adjustment	1 January – 31 March 2016 *(restated)*
Net investment income	968	26 [1]	994
Administrative expenses	(620)	3 [1] (13) [2]	(630)
Other operating expenses	(421)	13 [2]	(408)
Operating profit	687	29 [1]	716
Income tax	(151)	(6) [1]	(157)
Net profit	**536**	**23**	**559**
- profit attributable to the equity holders of the parent company	486	6	492
- profit attributable to holders of non-controlling interests	50	17	67

[1] Change described in item 4.2.2.4.
[2] Change described in item 4.2.1.

Consolidated cash flow statement	1 January – 31 March 2016 *(historical)*	Adjustment	1 January – 31 March 2016 *(restated)*
Profit before tax	687	29 [1]	716
Reinsurers' share in gross written premium	55	(55)	-
Cash flow on investment contracts	-	(36)	(36)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	-	19	19
Other adjustments	(60)	43	(17)
Net cash flow on operating activity	**(187)**	**-**	**(187)**
Realization of debt securities	30,508	(14) [2]	30,494
Interest received	78	14 [2]	92
Cash inflows on investing activity	**215,578**	**-**	**215,578**

[1] Change described in item 4.2.2.4.
[2] Change described in item 4.2.2.6.

5. Key estimates and judgments

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

6. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2017, no corrections were made of errors from previous years.

7. Material events after the end of the reporting period

On 16 May 2017 PZU, PFR and UniCredit S.p.A. signed a memorandum of understanding according to which PZU and PFR are supposed to acquire the equity stake in Pekao from UniCredit S.p.A. on 7 June 2017, one business day prior to Pekao's extraordinary shareholder meeting convened for 8 June 2017.

A detailed description of this transaction and information on the corporate consents obtained in connection with the acquisition of the equity stake in Pekao are presented in item 24.4.

(in millions of PLN)

8. Significant events materially affecting the structure of lines items in the financial statements

In the period of 3 months ended 31 March 2017, there were no material events that resulted in any significant change of the structure of financial statement items.

9. Supplementary notes to the condensed interim consolidated financial statements

9.1 Gross written premium

Gross written premium	1 January – 31 March 2017	1 January – 31 March 2016
Gross written premium in non-life insurance	3,622	2,845
In direct insurance	3,615	2,839
In indirect insurance	7	6
Gross written premium in life insurance	2,146	1,956
Individual insurance premiums	431	267
Individually continued insurance premiums	491	484
Group insurance premiums	1,224	1,205
Gross written premium, total	**5,768**	**4,801**

Gross written premium in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2017	1 January – 31 March 2016
Accident and sickness insurance (class 1 and 2)	154	140
Motor third party liability insurance (class 10)	1,374	925
Other motor insurance (class 3)	949	752
Marine, air and cargo insurance (classes 4, 5, 6, 7)	18	37
Insurance against fire and other property damage (classes 8 and 9)	756	651
TPL insurance (classes 11, 12, 13)	219	212
Credit and guarantee insurance (classes 14, 15)	18	16
Assistance (class 18)	105	86
Legal protection (class 17)	3	2
Other (class 16)	19	18
Total	**3,615**	**2,839**

(in millions of PLN)

9.2 Revenues from commissions and fees

Revenues from commissions and fees	1 January – 31 March 2017	1 January – 31 March 2016
Banking activity	216	138
Brokerage commissions	31	18
Administration of payment cards and credit cards	55	24
Intermediary fees on insurance sold	18	21
Loans and borrowings	23	14
Administration of bank accounts	43	25
Transfers	18	9
Cash operations	10	5
Purchased receivables	4	2
Guarantees, letters of credit, collection, commitment letters	3	4
Other commissions	11	16
Pension insurance	28	24
Commissions on distribution fees	1	1
Commissions on asset management in an open-end pension fund	27	23
Revenues from fees relating to investment contracts for the client’s account and risk	1	1
Revenues and payments received from funds and mutual fund companies	22	22
Revenues from commissions and fees, total	**267**	**185**

9.3 Net investment income

Net investment income	1 January – 31 March 2017	1 January – 31 March 2016 *(restated)*
Interest revenues	1,127	976
Bank loans	748	535
Available for sale financial assets	48	35
Financial assets held to maturity	214	200
Borrowings	72	79
Purchased receivables	5	6
Hedge derivatives	26	114
Receivables, including receivables due under insurance contracts	6	2
Cash and cash equivalents	8	5
Dividend income	1	1
Available for sale financial assets	1	1
Income on investment properties	61	56
Foreign exchange differences	144	(10)
Others	(30)	(29)
Investment activity expenses	(11)	(9)
Investment real estate maintenance expenses	(24)	(27)
Others	5	7
Net investment income, total	**1,303**	**994**

(in millions of PLN)

9.4 Net realized result and impairment charges on investments

Net realized result and impairment charges on investments	1 January – 31 March 2017	1 January – 31 March 2016
Net result on the realization of investments	**10**	**88**
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	(41)	(20)
Equity instruments	(33)	(72)
Debt securities	(8)	52
Financial assets held for trading:	86	62
Equity instruments	33	(41)
Debt securities	(35)	31
Derivatives	88	72
Available for sale financial assets	(23)	50
Equity instruments	(22)	-
Debt securities	(1)	50
Borrowings	1	1
Receivables, including receivables due under insurance contracts	(13)	(6)
Investment properties	-	1
Impairment charges	**(223)**	**(179)**
Available for sale financial assets	-	(7)
Debt instruments	-	(7)
Borrowings	(209)	(160)
Loan receivables from clients	(209)	(160)
Receivables, including receivables due under insurance contracts	(14)	(12)
Net result on the realization of investments and impairment charges, total	**(213)**	**(91)**

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

Net movement in the fair value of assets and liabilities measured at fair value	1 January – 31 March 2017	1 January – 31 March 2016
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	353	139
Equity instruments	412	68
Debt securities	(1)	78
Measurement of liabilities to members of consolidated mutual funds	(41)	(6)
Investment contracts for the client's account and risk (*unit-linked*)	(17)	(1)
Financial instruments held for trading	237	19
Equity instruments	172	23
Debt securities	(27)	27
Derivatives	92	(31)
Investment properties	(2)	(4)
Others	(4)	-
Net movement in the fair value of assets and liabilities measured at fair value, total	**584**	**154**

(in millions of PLN)

9.6 Other operating revenues

Other operating revenues	1 January – 31 March 2017	1 January – 31 March 2016
Revenues for managing third party assets	4	3
Reimbursement of the costs of pursuit of claims	9	5
Commissions for acting as an emergency adjuster	2	2
Reversal of provisions	6	3
Reversal of impairment charges on non-financial assets	17	5
Reinsurance commissions and profit-sharing	9	13
Revenues on the sales of products, merchandise and services by non-insurance companies	93	93
Written off leasing liabilities on account of premium refunds and payment surpluses	57	2
Revenues from direct claims handling on behalf of other insurance undertakings	56	53
Interest on late payment of amounts due under direct insurance and outward reinsurance contracts	2	8
Others	28	17
Other operating revenues, total	**283**	**204**

9.7 Claims and movement in technical provisions

Claims and movement in technical provisions	1 January – 31 March 2017	1 January – 31 March 2016
Claims and movement in technical provisions	**3,792**	**3,096**
In non-life insurance	1,839	1,599
- claims in non-life insurance	1,662	1,607
- movement in technical provisions in non-life insurance	(10)	(185)
- claims handling expenses in non-life insurance	187	177
In life insurance	1,953	1,497
- claims in life insurance	1,628	1,523
- movement in technical provisions in life insurance	292	(64)
- claims handling expenses in life insurance	33	38
Reinsurers’ share in claims and movement in technical provisions	**(82)**	**(30)**
In non-life insurance	(82)	(30)
Total net insurance claims and benefits	**3,710**	**3,066**

9.8 Costs of commissions and fees

Costs of commissions and fees	1 January – 31 March 2017	1 January – 31 March 2016
Brokerage commissions	1	1
Costs of card and ATM transactions, including costs of card issuance	32	16
Insurance of banking products	4	6
Commissions for the availability of ATMs	5	5
Commissions under agreements to perform certain actions	4	2
Costs of compensations and awards to banking clients	7	5
Commissions paid to agents in banking activity	6	5
Assistance services to banking clients	1	1
Costs of acquisition of banking clients	1	2
Other commissions	20	9
Costs of commissions and fees, total	**81**	**52**

(in millions of PLN)

9.9 Interest expenses

Interest expenses	1 January – 31 March 2017	1 January – 31 March 2016
Term deposits	84	106
Current deposits	24	8
Hedge derivatives	23	103
Sell-buy-back transactions	6	11
Outstanding own debt securities	45	42
Bank loans contracted by PZU Group companies	1	1
Investment contracts with guaranteed and fixed terms and conditions	-	1
Others	4	2
Interest expenses, total	**187**	**274**

9.10 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2017	1 January – 31 March 2016 *(restated)*
Consumption of materials and energy	71	54
Third party services	249	181
Taxes and fees	20	15
Employee expenses	685	564
Depreciation of property, plant and equipment	50	37
Amortization of intangible assets	50	39
Other, including:	705	643
- commissions on direct activity	561	498
- advertising	27	23
- remuneration of persons handling group insurance in companies	53	53
- other	64	69
Movement in capitalized acquisition expenses	(56)	(68)
Administrative, acquisition and claims handling expenses, total	**1,774**	**1,465**

(in millions of PLN)

9.11 Other operating expenses

Other operating expenses	1 January – 31 March 2017	1 January – 31 March 2016 *(restated)*
Amortization of intangible assets purchased in company acquisition transactions	20	23
Direct claims handling expenses on behalf of other insurance undertakings	56	56
Establishing provisions	7	9
Establishing charges for non-financial assets	25	7
Expenses of the core business of non-insurance companies and non-banking companies	122	114
Expenditures for prevention activity	17	21
Compulsory payments to insurance market institutions and banking market institutions	20	22
Insurance Indemnity Fund	17	14
Bank Indemnity Fund	22	19
Fee for the National Fire Brigade Headquarters and the Association of Voluntary Fire Brigades	20	21
Tax on financial institutions	124	67
Others	54	35
Other operating expenses, total	**504**	**408**

9.12 Earnings per share

Earnings per share	1 January – 31 March 2017	1 January – 31 March 2016 *(restated)*
Net profit attributable to the equity holders of the parent company	940	492
Basic and diluted weighted average number of ordinary shares	863,512,144	863,489,477
Number of outstanding shares	863,523,000	863,523,000
Amount of treasury stock (held by PZU's subsidiaries)	(10,856)	(33,523)
Basic and diluted earnings (losses) per ordinary share (in PLN)	1.09	0.57

In the 3-month period ended 31 March 2017, there were no transactions or events resulting in the dilution of earnings per share.

9.13 Income tax

Total amount of current and deferred tax	1 January – 31 March 2017	1 January – 31 March 2016 *(restated)*
Recognized in the profit and loss account	(252)	(157)
- current tax	(29)	(60)
- deferred tax	(223)	(97)
Recognized in other comprehensive income (deferred tax)	(13)	2
Total amount of current and deferred tax	**(265)**	**(155)**

Income tax pertaining to components of other comprehensive income	1 January – 31 March 2017	1 January – 31 March 2016
Gross other comprehensive income	20	(11)
Income tax	(13)	2
Measurement of financial instruments available for sale and cash flow hedging transactions	(13)	2
Other net comprehensive income	**7**	**(9)**

(in millions of PLN)

9.14 Goodwill

Goodwill	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Alior Bank	746	746	746
Lietuvos Draudimas AB	467 [1)]	489 [1)]	359
Mass segment in non-life insurance (Link4)	221	221	221
Lietuvos Draudimas AB Branch in Estonia	n/a [1)]	n/a [1)]	113
AAS Balta	38	40	38
Medical companies	82	82	52
Others	5	5	8
Goodwill, total	**1,559**	**1,583**	**1,537**

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

In the 3-month period ended 31 March 2017, there were no premises justifying carrying out impairment tests. As a consequence, just like in 2016, there were no impairment charges related to goodwill.

9.15 Other assets

Other assets	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Reinsurance settlements	305	403	303
Estimated salvage and subrogation	170	161	111
Deferred IT expenses	44	41	31
Posted direct claims handling receivables	48	49	42
Inventory	119	114	140
Other assets	120	103	264
Other assets, total	**806**	**871**	**891**

(in millions of PLN)

9.16 Entities measured by the equity method

Associates	31 March 2017	31 December 2016	31 March 2016	31 March 2017	31 December 2016	31 March 2016
Name of the company	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			Tychy		
Equity stake in the entity	28.31%	28.31%	28.31%	30.00%	30.00%	30.00%
Percentage of votes in the entity	25.44%	25.44%	25.44%	30.00%	30.00%	30.00%
Valuation method in the consolidated financial statements	Equity method			Equity method		
Accounting standard used by the entity	IFRS			PAS		
Carrying amount of exposure to the entity	37	37	53	-	-	1
Fair value of exposure to the entity	41	37	55	-	-	-
Value of dividends received from the entity	-	-	-	-	-	-
Key financial highlights						
Assets, including:	290	285	254	4	4	3
Short-term assets, including:	43	46	57	3	3	2
Cash and cash equivalents	6	11	19	3	3	2
Long-term assets	247	239	197	1	1	1
Equity	140	142	151	2	2	2
Liabilities, including:	150	143	103	2	2	1
Short-term liabilities, including:	103	76	66	2	2	1
Short-term financial liabilities	53	28	24	-	-	-
Long-term liabilities, including:	47	67	37	-	-	-
Long-term financial liabilities	29	50	19	-	-	-
Revenues on core business	77	278	68	1	2	-
Amortization and depreciation	4	14	3	-	-	-
Interest revenues	-	-	-	-	-	-
Interest expenses	1	3	-	-	-	-
Income tax	1	2	-	-	-	-
Comprehensive income, incl.:	(2)	(11)	(1)	-	-	-
Net financial result, including:	(2)	(11)	(1)	-	-	-
Net financial result on continuing operations	(2)	(11)	(1)	-	-	-
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.

9.17 Financial assets

In the 3 months ended 31 March 2017 there was no reclassification of financial assets between the groups carried at fair value and the groups carried at cost or amortized cost.

(in millions of PLN)

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 March 2017 was PLN 81 million.

The aforementioned transfer was the only reclassification of this type effected since 2015.

9.17.1. Financial instruments held to maturity

Financial instruments held to maturity	31 March 2017	31 December 2016	31 March 2016
Debt securities	19,272	17,346	17,512
Government securities	19,051	17,117	17,292
Domestic	18,687	16,741	16,975
Fixed rate	18,002	15,793	15,747
Floating rate	685	948	1,228
Foreign	364	376	317
Fixed rate	364	376	317
Others	221	229	220
Listed on a regulated market	98	103	96
Fixed rate	98	103	96
Not listed on a regulated market	123	126	124
Floating rate	123	126	124
Financial instruments held to maturity, total	**19,272**	**17,346**	**17,512**

9.17.2. Financial instruments available for sale

Financial instruments available for sale	31 March 2017	31 December 2016	31 March 2016
Equity instruments	362	417	569
Listed on a regulated market	145	132	190
Not listed on a regulated market [1)]	217	285	379
Debt instruments	8,588	11,218	7,639
Government securities	8,033	7,981	6,639
Domestic	7,666	7,592	6,269
Fixed rate	5,643	5,144	4,250
Floating rate	2,023	2,448	2,019
Foreign	367	389	370
Fixed rate	367	389	370
Others	555	3,237	1,000
Listed on a regulated market	36	37	260
Fixed rate	36	37	217
Floating rate	-	-	43
Not listed on a regulated market	519	3,200	740
Fixed rate	11	2,611 [2)]	170
Floating rate	508	589	570
Financial instruments available for sale, total	**8,950**	**11,635**	**8,208**

[1)] Due to the low unit amounts of the exposures, equity instruments not listed on regulated markets with the total carrying amount of PLN 21 million (as at 31 December 2016: PLN 21 million, as at 31 March 2016: PLN 16 March 2016) were carried at historical cost, taking into account the impairment charges, if any.

[2)] including NBP money bills in the amount of PLN 2,600 million.

(in millions of PLN)

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

Financial instruments measured at fair value through profit or loss	31 March 2017	31 December 2016	31 March 2016
Instruments classified into this category upon first recognition	**11,170**	**14,479**	**13,494**
Equity instruments	3,191	2,951	2,589
Listed on a regulated market	3,023	2,830	2,457
Not listed on a regulated market	168	121	132
Debt instruments	7,979	11,528	10,905
Government securities	7,887	11,437	10,685
Domestic	5,795	9,686	9,973
Fixed rate	4,221	8,257	8,533
Floating rate	1,574	1,429	1,440
Foreign	2,092	1,751	712
Fixed rate	2,092	1,674	550
Floating rate	-	77	162
Other	92	91	220
Listed on a regulated market	92	91	220
Fixed rate	92	91	220
Instruments held for trading	**11,051**	**7,403**	**7,091**
Equity instruments	4,310	4,066	3,848
Listed on a regulated market	700	744	1,061
Not listed on a regulated market	3,610	3,322	2,787
Debt instruments	5,839	2,456	2,376
Government securities	5,765	2,383	2,302
Domestic	3,483	1,416	1,652
Fixed rate	3,338	1,384	1,613
Floating rate	145	32	39
Foreign	2,282	967	650
Fixed rate	2,282	967	650
Other	74	73	74
Not listed on a regulated market	74	73	74
Floating rate	74	73	74
Derivatives	902	881	867
Financial instruments measured at fair value through profit or loss, total	**22,221**	**21,882**	**20,585**

(in millions of PLN)

9.17.4. Borrowings

Borrowings	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Debt securities	**2,459**	**2,463**	**2,733**
Government securities	2	2	6
Foreign	2	2	6
Fixed rate	2	2	6
Other	2,457	2,461	2,727
Not listed on a regulated market	2,457	2,461	2,727
Floating rate	2,457	2,461	2,727
Other	**52,846**	**51,902**	**40,140**
Loan receivables from clients	46,949	45,029	32,119
Buy-sell-back transactions	1,397	2,880	1,005
Term deposits in credit institutions	1 201[1]	2,285	4,998
Borrowings [2]	3,299	1,708	2,018
Total borrowings	**55,305**	**54,365**	**42,873**

[1] PLN deposits represent over 81% of term deposits in credit institutions. Over 80% of term deposits will mature before 30 June 2017.
[2] 100% of borrowings are borrowings secured by pledges on shares, sureties, guarantees or material securities.

The fair value of buy-sell-back transactions and term deposits in credit institutions did not differ significantly from their carrying amounts due to their short-term nature.

Loan receivables from clients	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Retail segment	**25,868**	**25,309**	**17,892**
Operating loans	292	294	180
Consumer loans	14,328	13,865	8,980
Consumer finance loans	1,355	1,222	828
Loans to purchase securities	139	125	119
Credit card account credit	604	970	217
Housing loans	8,309	7,969	6,654
Other mortgage loans	816	813	883
Other receivables	25	51	31
Business segment	**21,081**	**19,720**	**14,227**
Operating loans	11,393	10,838	7,855
Car loans	127	132	59
Investment loans	8,137	7,493	5,665
Purchased receivables (factoring)	808	794	439
Other receivables	616	463	209
Total loan receivables from clients	**46,949**	**45,029**	**32,119**

(in millions of PLN)

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

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

As at 31 March 2017

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Argentine	USD	70	77	77	-
Brazil	USD	69	76	76	-
Bulgaria	EUR	239	252	253	-
Croatia	EUR/USD	92	94	97	-
Cyprus	EUR	24	25	25	-
Czechia	CZK	565	529	529	-
Spain	EUR	123	116	116	-
Indonesia	EUR/USD	40	44	44	-
Lithuania	EUR/USD	427	447	451	-
Latvia	EUR/USD	94	106	106	-
Mexico	EUR/USD/MXN	72	72	72	-
Germany	EUR	712	706	706	-
Portugal	EUR	15	15	15	-
South Africa	EUR/ZAR	129	129	129	-
Romania	EUR/USD/RON	488	490	491	-
Slovakia	EUR	158	147	147	-
Slovenia	EUR	132	128	128	-
Sri Lanka	USD	42	45	45	-
United States	USD	767	767	767	-
Turkey	EUR/USD/TRY	350	344	344	-
Ukraine	EUR/USD/UAH	77 [1)]	61 [1)]	62 [1)]	-
Hungary	EUR/USD/HUF	396	395	396	-
other	EUR/USD/GBP	44	42	42	-
Total		**5,125**	**5,107**	**5,118**	**-**

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

Balance as at 31 December 2016

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Argentine	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	-
Czechia	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	-

(in millions of PLN)

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Romania	EUR/USD/RON	397	422	423	-
Slovakia	EUR	164	162	162	-
Slovenia	EUR	132	138	138	-
Sri Lanka	USD	42	45	45	-
United States	USD	148	149	149	-
Turkey	EUR/USD/TRY	324	345	345	-
Ukraine	EUR/USD/UAH	69 [1)]	68 [1)]	68 [1)]	-
Hungary	EUR/USD/HUF	399	423	424	-
other	EUR/USD/GBP	43	44	44	-
Total		**3,295**	**3,485**	**3,496**	**-**

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

As at 31 March 2016

Country	Currency	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Bulgaria	EUR	208	210	210	-
Croatia	EUR/USD	36	38	39	-
Czechia	EUR/CZK	89	89	89	-
Spain	EUR	194	201	201	-
Ireland	EUR	14	14	15	-
Iceland	USD	60	60	60	-
Lithuania	EUR/USD	458	489	494	-
Latvia	EUR/USD	103	115	115	-
Germany	EUR	18	19	19	-
Portugal	EUR	118	116	116	-
Romania	EUR/USD/RON	162	177	177	-
Sri Lanka	USD	25	23	23	-
Turkey	EUR/USD	99	97	97	-
Ukraine	UAH/USD	45 [1)]	38 [1)]	37 [1)]	-
Hungary	EUR/USD/HUF	245	251	252	-
other	EUR/USD	117	118	118	-
Total		**1,991**	**2,055**	**2,062**	**-**

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

(in millions of PLN)

Exposure to debt securities issued by corporations and local government units

As at 31 March 2017

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	1,299	1,311	1,323	-
Companies from the WIG-Fuels Index	997	1,011	1,013	-
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	315	318	319	-
Privately held domestic banks	20	21	22	-
Foreign banks	74	75	77	1
Domestic local governments	96	101	103	-
Companies from the WIG-Raw Materials Index	273	233	231	60
Other	365	320	320	17
Total	**3,448**	**3,399**	**3,417**	**78**

Balance as at 31 December 2016

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

As at 31 March 2016

Issuer	Acquisition price	Carrying amount	Fair value measurement	Impairment charge
Companies from the WIG-Banks Index	1,853	1,893	1,922	-
Companies from the WIG-Fuels Index	1,004	1,014	1,024	-
Companies from the WIG-Chemicals Index	6	6	6	-
Companies from the WIG-Energy Index	315	318	318	-

(in millions of PLN)

Privately held domestic banks	20	21	22	-
Mortgage banks	42	43	43	-
Foreign banks	76	79	81	1
Domestic local governments	96	108	115	-
Companies from the WIG-Raw Materials Index	246	205	205	43
National Bank of Poland	170	170	170	-
Other	411	384	384	19
Total	**4,239**	**4,241**	**4,290**	**63**

9.17.6. Derivatives

Derivatives – assets	31 March 2017	31 December 2016	31 March 2016
Interest rate derivatives	**641**	**702**	**846**
Instruments carried as cash flow hedging transactions – unlisted instruments, including:	61	72	161
- SWAP transactions	61	72	161
Instruments carried as held for trading, including:	580	630	685
Instruments listed on a regulated market, including:	5	7	-
- forward contracts	5	7	-
Unlisted (OTC) instruments, including:	575	623	685
- forward contracts	-	-	18
- SWAP transactions	552	597	662
- call options	1	4	5
- other	22	22	-
Foreign exchange derivatives – carried as held for trading	**250**	**202**	**132**
Instruments listed on a regulated market, including:	3	3	-
- forward contracts	3	3	-
Unlisted (OTC) instruments, including:	247	199	132
- forward contracts	46	62	42
- SWAP transactions	176	115	81
- call options	24	22	9
- put options	1	-	-
Derivatives related to equity and commodity prices – carried as held for trading	**72**	**49**	**50**
Listed instruments, including:	4	-	4
- forward contracts	-	-	-
- call options	-	-	2
- put options	4	-	2
Unlisted (OTC) instruments, including:	68	49	46
- call options	67	48	45
- put options	1	1	1
Derivatives – assets, total	**963**	**953**	**1,028**

(in millions of PLN)

Derivatives – liabilities	31 March 2017	31 December 2016	31 March 2016
Interest rate derivatives	**599**	**639**	**775**
Instruments carried as cash flow hedging transactions – unlisted instruments, including:	12	6	1
- SWAP transactions	12	6	1
Instruments carried as held for trading, including:	587	633	774
Listed instruments, including:	7	19	19
- forward contracts	7	19	19
Unlisted (OTC) instruments, including:	580	614	755
- forward contracts	-	-	15
- SWAP transactions	553	586	735
- put options	3	6	5
- other	24	22	-
Foreign exchange derivatives – carried as held for trading	**114**	**125**	**98**
Unlisted (OTC) instruments, including:	114	125	98
- forward contracts	44	25	18
- SWAP transactions	45	77	71
- put options	25	23	9
Derivatives related to equity and commodity prices – carried as held for trading	**23**	**23**	**24**
Unlisted (OTC) instruments, including:	23	23	24
- call options	1	1	1
- put options	22	22	23
Derivatives – liabilities, total	**736**	**787**	**897**

9.17.7. Information on changes in the economic situation and business conditions materially affecting the fair value of financial assets and liabilities

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

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

Information on changes to the classification of financial assets is presented in item 9.17.

9.18 Fair value

9.18.1. Description of valuation techniques

9.18.1.1. Debt securities

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

The PZU Group performs an internal verification of the valuations published by an authorized information service and compares them with other available sources while relying on data observed on the market.

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

9.18.1.2. 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.

9.18.1.3. Derivatives

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

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

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

9.18.1.4. Loan receivables from clients

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

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

9.18.1.5. Financial liabilities

Liabilities under deposits

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

Liabilities on the issue of own debt securities and subordinated debt

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

9.18.2. Fair value hierarchy

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

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

(in millions of PLN)

- loan receivables from clients and liabilities to clients under deposits;
- options embedded in deposit certificates issued by Alior Bank and options concluded in the interbank market to hedge embedded option positions.

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

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

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

Assets and liabilities measured at fair value as at 31 March 2017	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	8,176	219	555	8,950
Equity instruments	145	196	21	362
Debt securities	8,031	23	534	8,588
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	8,921	2,209	40	11,170
Equity instruments	3,076	100	15	3,191
Debt securities	5,845	2,109	25	7,979
Financial instruments measured at fair value through profit or loss – held for trading	4,074	6,772	205	11,051
Equity instruments	700	3,610	-	4,310
Debt securities	3,354	2,348	137	5,839
Derivatives	20	814	68	902
Hedge derivatives	-	61	-	61
Liabilities				
Derivatives	22	688	26	736
Liabilities to members of consolidated mutual funds	-	1,684	-	1,684
Investment contracts for the client's account and risk (*unit-linked*)	-	331	-	331
Liabilities on borrowed securities (short sale)	611	-	-	611

(in millions of PLN)

Assets and liabilities measured at fair value as at 31 December 2016	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	8,113	2,887	635	11,635
Equity instruments	132	264	21	417
Debt securities	7,981	2,623	614	11,218
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	12,555	1,882	42	14,479
Equity instruments	2,837	97	17	2,951
Debt securities	9,718	1,785	25	11,528
Financial instruments measured at fair value through profit or loss – held for trading	1,882	5,333	188	7,403
Equity instruments	745	3,321	-	4,066
Debt securities	1,119	1,202	135	2,456
Derivatives	18	810	53	881
Hedge derivatives	-	72	-	72
Liabilities				
Derivatives	31	730	26	787
Liabilities to members of consolidated mutual funds	-	1,544	-	1,544
Investment contracts for the client's account and risk (*unit-linked*)	-	329	-	329
Liabilities on borrowed securities (short sale)	654	-	-	654

Assets and liabilities measured at fair value as at 31 March 2016	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	7,000	932	276	8,208
Equity instruments	190	363	16	569
Debt securities	6,810	569	260	7,639
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	13,335	79	80	13,494
Equity instruments	2,459	79	51	2,589
Debt securities	10,876	-	29	10,905
Financial instruments measured at fair value through profit or loss – held for trading	3,344	3,597	150	7,091
Equity instruments	1,061	2,787	-	3,848
Debt securities	2,273	-	103	2,376
Derivatives	10	810	47	867
Hedge derivatives	-	161	-	161
Liabilities				
Derivatives	31	841	25	897
Liabilities to members of consolidated mutual funds	-	677	-	677
Investment contracts for the client's account and risk (*unit-linked*)	-	375	-	375
Liabilities on borrowed securities (short sale)	442	-	-	442

(in millions of PLN)

Fair value of assets and liabilities for which it is only disclosed as at 31 March 2017	Level I	Level II	Level III	Total
Assets				
Entities measured by the equity method – EMC	-	41	-	41
Financial assets held to maturity	15,555	26	5,646	21,227
Borrowings				
Debt securities	2	-	2,471	2,473
Loan receivables from clients	-	-	46,481	46,481
Borrowings	-	-	3,325	3,325
Liabilities				
Liabilities to banks	-	380	118	498
Liabilities to clients	-	-	50,515	50,515
Liabilities on the issue of own debt securities	-	-	3,614	3,614
Subordinated debt	-	-	1,024	1,024

Fair value of assets and liabilities for which it is only disclosed as at 31 December 2016	Level I	Level II	Level III	Total
Assets				
Entities measured by the equity method – EMC	-	37	-	37
Financial assets held to maturity	15,531	15	3,520	19,066
Borrowings				
Debt securities	1	1	2,467	2,469
Loan receivables from clients	-	-	44,897	44,897
Borrowings	-	-	1,705	1,705
Liabilities				
Liabilities to banks	-	399	124	523
Liabilities to clients	-	-	51,364	51,364
Liabilities on the issue of own debt securities	-	-	3,761	3,761
Subordinated debt	-	-	1,027	1,027

Fair value of assets and liabilities for which it is only disclosed as at 31 March 2016 *(restated)*	Level I	Level II	Level III	Total
Assets				
Entities measured by the equity method – EMC	55	-	-	55
Financial assets held to maturity	17,302	-	2,862	20,164
Borrowings				
Debt securities	-	6	2,767	2,773
Loan receivables from clients	-	-	31,748	31,748
Borrowings	-	-	2,012	2,012
Liabilities				
Liabilities to banks	-	251	139	390
Liabilities to clients	-	-	35,776	35,776
Liabilities on the issue of own debt securities	-	-	3,576	3,576
Subordinated debt	-	-	801	801

9.18.3. Shifts between different levels of the fair value hierarchy

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

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

- there is a change in the measurement model resulting from the application of new unobservable factors (or observable ones, respectively); or

(in millions of PLN)

- the previously used factors which had a significant impact on the measurement cease to be (or become, respectively) observable on the active market.

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

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

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

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

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

In the 3 months period ended 31 March 2017 there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

9.19 Receivables

Receivables – carrying amount	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Receivables on direct insurance, including:	2,243	2,233	1,817
- receivables from policyholders	2,072	1,996	1,630
- receivables from insurance intermediaries	153	213	163
- other receivables	18	24	24
Reinsurance receivables	81	76	68
Other receivables	4,023	3,394	4,822
- receivables on account of Corporate Income Tax	95	16	121
- receivables from the state budget, other than on account of Corporate Income Tax	70	55	57
- receivables on account of payment card settlements	121	202	84
- prevention settlements	45	47	59
- receivables for acting as an emergency adjuster	12	11	9
- receivables from transactions on securities and security deposits [1]	3,021	2,401	4,071
- trade receivables	125	148	279
- receivables from direct claims handling on behalf of other insurance undertakings	35	40	46
- receivables from banks	28	12	36
- receivables from settlement of the acquisition of Bank BPH's Core Business	145	145	-
- other	326	317	60
Total receivables	**6,347**	**5,703**	**6,707**

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

As at 31 March 2017, 31 December 2016 and 31 March 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 creating impairment charges.

(in millions of PLN)

9.20 Impairment of financial assets and receivables

Movement in impairment charges for financial asset in the period of 1 January – 31 March 2017	Balance at the beginning of the period	Recognition captured in the profit and loss account	Reversal captured in the profit and loss account	Derecognition (sale, write-down etc.) and other changes in impairment charges	Balance at the end of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	1
Available for sale financial assets	**54**	**-**	**-**	**-**	**54**
Equity instruments	47	-	-	-	47
Debt securities	7	-	-	-	7
Borrowings	**855**	**679**	**(470)**	**49**	**1,113**
Debt securities	71	-	-	(1)	70
Loan receivables from clients	768	679	(470)	50	1,027
Term deposits in credit institutions	1	-	-	-	1
Borrowings	15	-	-	-	15
Receivables	**591**	**41**	**(27)**	**-**	**605**
Receivables on direct insurance	562	39	(24)	-	577
Reinsurance receivables	8	1	(2)	-	7
Other receivables	21	1	(1)	-	21
Reinsurers' share in technical provisions	**9**	**4**	**(1)**	**-**	**12**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**1**
Total	**1,511**	**724**	**(498)**	**49**	**1,786**

Movement in impairment charges for financial assets in the year ended 31 December 2016	Balance at the beginning of the period	Recognition captured in the profit and loss account	Reversal captured in the profit and loss account	Derecognition (sale, write-down etc.)	Balance at the end of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	1
Available for sale financial assets	**46**	**8**	**-**	**-**	**54**
Equity instruments	46	1	-	-	47
Debt securities	-	7	-	-	7
Borrowings	**77**	**1,896**	**(1,095)**	**(23)**	**855**
Debt securities	43	33	-	(5)	71
Loan receivables from clients	-	1,863	(1,095)	-	768
Term deposits in credit institutions	1	-	-	-	1
Borrowings	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	**724**	**1,992**	**(1,176)**	**(29)**	**1,511**

(in millions of PLN)

Movement in impairment charges for financial asset in the period of 1 January – 31 March 2016	Balance at the beginning of the period	Recognition captured in the profit and loss account	Reversal captured in the profit and loss account	Derecognition (sale, write-down etc.) and foreign exchange differences	Balance at the end of the period
Financial assets held to maturity	**1**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	1
Available for sale financial assets	**46**	**7**	**-**	**-**	**53**
Equity instruments	46	-	-	-	46
Debt securities	-	7	-	-	7
Borrowings	**77**	**160**	**-**	**-**	**237**
Debt securities	43	-	-	-	43
Loan receivables from clients	-	160	-	-	160
Term deposits in credit institutions	1	-	-	-	1
Borrowings	33	-	-	-	33
Receivables	**588**	**23**	**(11)**	**(1)**	**599**
Receivables on direct insurance	562	20	(8)	(1)	573
Reinsurance receivables	6	2	(2)	-	6
Other receivables	20	1	(1)	-	20
Reinsurers' share in technical provisions	**11**	**12**	**(1)**	**-**	**22**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**1**
Total	**724**	**202**	**(12)**	**(1)**	**913**

9.21 Assets held for sale

Assets held for sale before reclassification	31 March 2017	31 December 2016	31 March 2016
Groups held for sale	**1,116**	**1,027**	**-**
Assets	1,159	1,060	-
Investment properties	1,002	1,002	-
Financial assets	23	-	-
Receivables	67	12	-
Deferred tax assets	2	2	-
Cash and cash equivalents	58	42	-
Other assets	7	2	-
Liabilities related directly to assets classified as held for sale	43	33	-
Deferred tax liability	15	15	-
Other liabilities	28	18	-
Other assets held for sale	**127**	**129**	**1,496**
Property, plant and equipment	38	39	43
Investment properties	89	90	1,453
Assets and groups of assets held for sale	**1,286**	**1,189**	**1,496**
Liabilities related directly to assets classified as held for sale	**43**	**33**	**-**

As at 31 March 2017 and 31 December 2016 the "Groups held for sale" section and as at 31 March 2016 the "Investment properties" line item presented primarily real estate held for sale on account of reaching the anticipated investment horizon.

(in millions of PLN)

9.22 Technical provisions

Technical provisions	31 March 2017			31 December 2016			31 March 2016		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**20,924**	**(1,003)**	**19,921**	**20,388**	**(990)**	**19,398**	**19,478**	**(1,050)**	**18,428**
Unearned premium reserve	7,516	(357)	7,159	6,957	(377)	6,580	5,987	(300)	5,687
Provision for unexpired risk	21	-	21	26	-	26	166	-	166
Provision for outstanding claims	7,760	(460)	7,300	7,730	(421)	7,309	7,567	(578)	6,989
- for reported claims	2,974	(417)	2,557	2,992	(371)	2,621	3,159	(534)	2,625
- for claims incurred but not reported *(IBNR)*	2,991	(24)	2,967	2,979	(29)	2,950	2,668	(22)	2,646
- for claims handling costs	1,795	(19)	1,776	1,759	(21)	1,738	1,740	(22)	1,718
Provision for capitalized value of annuities	5,625	(186)	5,439	5,673	(192)	5,481	5,756	(172)	5,584
Provisions for bonuses and discounts for insureds	2	-	2	2	-	2	2	-	2
Technical provisions in life insurance	**22,086**	**-**	**22,086**	**21,806**	**-**	**21,806**	**21,927**	**-**	**21,927**
Unearned premium reserve	92	-	92	93	-	93	90	-	90
Provision for life insurance	15,947	-	15,947	15,928	-	15,928	16,173	-	16,173
Provision for outstanding claims	549	-	549	542	-	542	577	-	577
- for reported claims	157	-	157	156	-	156	149	-	149
- for claims incurred but not reported *(IBNR)*	386	-	386	380	-	380	422	-	422
- for claims handling costs	6	-	6	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	4	-	4	3	-	3	1	-	1
Other technical provisions	312	-	312	323	-	323	374	-	374
Technical provisions for life insurance if the policyholder bears the investment risk	5,182	-	5,182	4,917	-	4,917	4,712	-	4,712
Technical provisions, total	**43,010**	**(1,003)**	**42,007**	**42,194**	**(990)**	**41,204**	**41,405**	**(1,050)**	**40,355**

(in millions of PLN)

9.23 Other provisions

Movement in other provisions in the period 1 January – 31 March 2017	Balance at the beginning of the period	Increase	Utilization	Reversal	Other changes	Balance at the end of the period
Provisions for restructuring expenses	252	-	(20)	-	-	232
Provision for disputed claims and potential liabilities	11	1	-	-	2	14
Provision for penalties imposed by the Office of Competition and Consumer Protection [1)]	58	-	-	-	-	58
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	-	9
Other	31	6	(1)	(6)	-	30
Other provisions, total	**367**	**7**	**(21)**	**(6)**	**2**	**349**

Movement in other provisions in the year ended 31 December 2016	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combinations	Balance at the end of the period
Provisions for restructuring expenses	3	200	(6)	-	55	252
Provision for disputed claims and potential liabilities	4	3	(1)	-	5	11
Provision for penalties imposed by the Office of Competition and Consumer Protection [1)]	58	-	-	-	-	58
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	-	9
Other	28	26	(8)	(25)	10	31
Other provisions, total	**108**	**229**	**(15)**	**(25)**	**70**	**367**

Movement in other provisions in the period 1 January – 31 March 2016	Balance at the beginning of the period	Increase	Utilization	Reversal	Balance at the end of the period
Provisions for restructuring expenses	3	-	(1)	-	2
Provision for disputed claims and potential liabilities	4	-	-	-	4
Provision for penalties imposed by the Office of Competition and Consumer Protection [1)]	58	-	-	-	58
Provision for the costs of closing the Graphtalk project	6	-	-	-	6
Provision for PTE PZU's reimbursement of undue commissions to the Social Insurance Institution (ZUS)	9	-	-	-	9
Other	28	9	(2)	(3)	32
Other provisions, total	**108**	**9**	**(3)**	**(3)**	**111**

[1)] The line item "Provision for penalties imposed by the Office of Competition and Consumer Protection" is explained in item 23.2.

(in millions of PLN)

9.24 Financial liabilities

Financial liabilities	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Financial liabilities carried at fair value	**3,362**	**3,314**	**2,391**
Derivatives held for trading	724	781	896
Cash flow hedge derivatives	12	6	1
Liabilities on borrowed securities (short sale)	611	654	442
Investment contracts for the client's account and risk (unit-linked)	331	329	375
Liabilities to members of consolidated mutual funds	1,684	1,544	677
Financial liabilities measured at amortized cost	**55,712**	**56,716**	**41,765**
Liabilities to banks	498	523	390
Current deposits	2	32	11
Overnight deposits	-	1	-
Bank securities	20	20	33
Loans received	300	305	141
Other liabilities	176	165	205
Liabilities to clients	50,402	51,241	35,765
Current deposits	26,440	25,791	12,689
Term deposits	20,699	22,160	20,349
Bank securities	2,801	2,769	2,349
Other liabilities	462	521	378
Liabilities on the issue of own debt securities	3,524	3,680	3,556
Subordinated debt	1,024	1,027	801
Liabilities under sell-buy-back transactions	214	178	1,117
Investment contracts with guaranteed and fixed terms and conditions	50	67	136
Total financial liabilities	**59,074**	**60,030**	**44,156**

9.24.1. Subordinated debt

The entire subordinated debt balance pertains to liabilities incurred by Alior Bank.

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

(in millions of PLN)

Subordinated debt, carrying amount	31 March 2017	31 December 2016	31 March 2016
Subordinated loan	42	44	43
Series F bonds	222	225	222
Series G bonds	193	196	193
Series I bonds	115	114	116
Series I1 bonds	34	33	34
Meritum Bank bonds	151	148	150
Series EUR001 bonds	43	45	43
Series P1A bonds	153	151	-
Series P1B bonds	71	71	-
Subordinated debt	**1,024**	**1,027**	**801**

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

9.24.2. Liabilities on the issue of own debt securities

	Par value (EUR million)	Interest rate	Issue dates	Maturity date
PZU Finance AB (publ.) bonds	850	1.375%	3 July 2014 16 October 2015	3 July 2019

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

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

(in millions of PLN)

9.25 Other liabilities

Other liabilities	31 March 2017	31 December 2016	31 March 2016 *(restated)*
Costs to be remitted	**1,016**	**1,192**	**890**
Posted expenses of agency commissions	304	301	291
Posted sales commission expenses in group insurance	8	10	3
Posted payroll expenses	170	170	101
Posted reinsurance expenses	290	432	296
Posted employee bonuses	69	149	76
Other	175	130	123
Revenues charged in advance	**150**	**152**	**126**
Other liabilities	**4,044**	**3,653**	**5,140**
Liabilities on direct insurance	835	849	771
Reinsurance liabilities	189	133	165
Current income tax liabilities	64	225	35
Liabilities to the state budget other than for income tax	57	56	72
Regulatory settlements	75	67	68
Liabilities to employees	195	165	7
Insurance Indemnity Fund	16	16	15
Liabilities for transactions on financial instruments	1,590	932	3,066
Trade payables	90	91	115
Estimated non-insurance liabilities	64	119	109
Liabilities to banks on account of payment documents settled by the National Clearance Chamber (KIR)	379	593	343
Estimate fee refunds in connection with withdrawals or terminations, by Alior Bank's clients, of insurance policies concluded at the sale of credit products	79	71	97
Alior Bank's liabilities on account of insurance of bank products offered to the bank's clients	21	23	58
To the National Fire Brigade Headquarters and Voluntary Fire Brigades	19	6	21
Liabilities on account of direct claims handling	9	13	9
Liabilities on account of payment card settlements	116	65	10
Liabilities on account of leases concluded not on an arm's length basis	33	38	27
Liabilities under donations	27	34	-
Other	186	157	152
Other liabilities, total	**5,210**	**4,997**	**6,156**

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2017	31 December 2016	31 March 2016
Contingent assets	25	40	39
- guarantees and sureties received	25	40	39
Contingent liabilities	16,493	16,364	10,224
- on account of revolving personal account (ROR) and credit card account limits	13,819	12,979	7,700
- guarantees and sureties given	1,437	1,514	1,485
- disputed insurance claims	689	429	333
- other disputed claims	199	195	197
- other, including:	349	1,247	509
- liabilities for tranches of borrowings not used by borrowers up to the balance sheet date	298	1,195	454
- potential liabilities under loan agreements concluded by the Armatura Group	26	27	27

11. Commentary to the condensed interim consolidated financial statements

In the period of 3 months ended 31 March 2017, gross written premium was PLN 5,768 million compared to PLN 4,801 million in the corresponding period of the previous year (+20.1%). The increase in sales applied above all to the following:

- motor insurance in the mass client segment (+ PLN 488 million) mainly due to the higher average premium and number of insurance policies;
- motor insurance in the corporate client segment (+ PLN 113 million) due to the higher average premium and number of insurance policies against fire and other property losses (+ PLN 86 million) following the execution of several contracts with high unit values;
- premium in the individual insurance segment (+ PLN 162 million) driven mainly by higher sales of unit-linked products in the bancassurance channel.
- additional premium received from health insurance concluded in the group or continued form.

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) in Q1 2017 and Q1 2016 were PLN 1,674 million and PLN 1,057 million, respectively, increasing both due to investment income generated on banking activity and also outside of that activity. Higher interest income on bank loans was posted in the banking activity. Investment income excluding the banking activity rose mainly because of the petter performance posted on listed equity instruments, in particular due to the improved market conditions on the Warsaw Stock Exchange. A positive change was also recorded in comparison to the previous period due to the improved valuation of the block of Azoty Group shares in the long-term asset portfolio. The above increases were partially offset by the lower valuation of interest-bearing financial instruments.

Net claims and benefits (including the movement in technical provisions) reached PLN 3,710 million and were 21.0% more than in the corresponding period of the previous year. The following factors contributed to the increase in the category of net claims and benefits:

- higher claims and benefits in Motor Own Damage (AC) insurance in the corporate client segment, mainly as a result of the rising average payout and the higher frequency of claims;
- higher level of claims and benefits in general TPL insurance and fire insurance in the corporate client segment after several claims with high unit value were reported.
- in life insurance – significantly higher increases in provisions, predominantly for individual unit-linked products in the bancassurance channel and to a lesser extent the same type of group and individual products offered within PZU's own network (mostly PPEs and IRA). In both cases, this resulted both from an increase in customer deposits to accounts and significantly better results of investment activity in the analyzed period;
- in protection insurance – an increase in the incidence of deaths compared to last year, confirmed by statistics published by the Central Statistics Office [GUS] for the entire population.

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

In Q1 2017 acquisition expenses rose by PLN 77 million (+12.5%) compared to the corresponding period of the previous year. This increase was caused in particular by higher sales in the mass client and corporate client segments.

PZU Group's administrative expenses in Q1 2017 were PLN 861 million compared to PLN 630 million in the corresponding period of 2016, i.e. they were up 36.7% over the previous year. This growth was chiefly driven by the merger of Alior Bank with the spunoff part of Bank BPH; PZU Group's expenses rose by PLN 211 million as a result. At the same time, a slight increase in administrative expenses was recorded in insurance segments in Poland, mainly because of the higher expenses incurred in bancassurance products following a change in the rules of settlements with banks under bancassurance agreements, which was partially offset by lower expenses of project activity.

In Q1 2017, the net balance of other operating income and expenses was negative and amounted to PLN 221 million compared with the also negative balance for 2016 of PLN 204 million. This change was caused mainly by the higher level of tax on financial institutions. The total charge incurred by the PZU Group on account of this tax (in insurance and banking activity) in Q1 2017 was PLN 124 million, as compared to PLN 67 million in the corresponding period of 2016 (since the tax was in effect since February 2016). This effect was partially offset by higher revenue on writing off liabilities on account of premium refunds and overpayments.

Interest expenses in Q1 2017 amounted to PLN 187 million and were PLN 87 million lower than in the corresponding period of last year. The decrease resulted mainly from interest on term deposits and hedging derivative instruments in banking activity.

The operating profit after Q1 2017 was PLN 1,259 million, up by PLN 543 million (+75.8%) compared to the same period in the previous year. This movement resulted in particular from:

- growth in profitability in the mass insurance segment compared to the corresponding period of 2016 (+PLN 327 million) – lower loss ratio in agricultural insurance as the outcome of multiple claims caused by the forces of nature occurring in the corresponding period of the previous year (adverse repercussions of ground frost) – non-recurring effect and to a lesser extent improved profitability in motor TPL insurance (result of modifying the average price, partially offset by the higher average claim payment coupled with rising claims frequency);
- higher investment result caused mainly by the better performance of listed equity instruments as a result of better conditions on the Warsaw Stock Exchange;
- a decline in profitability in group and individually continued insurance (- PLN 60 million) as a result of higher loss ratio of protection products associated with increase of the frequency of events associated with deaths, confirmed by GUS mortality data on the whole population;
- lower profitability in the corporate insurance segment (- PLN 61 million), mainly in the motor own damage insurance group and in general third party liability insurance and fire insurance (several large claims reported).

The net profit grew in comparison to the Q1 2016 by PLN 448 million (+80.1%) to PLN 1,007 million. Net profit attributable to the parent company's shareholders was PLN 940 million compared to PLN 492 million in 2016 (up 91.1%).

As at 31 March 2017, consolidated equity according to IFRS was PLN 18,157 million compared to PLN 15,667 million as at 31 March 2016. The growth in consolidated equity pertained to non-controlling interests that in connection with Alior Bank's stock issue in H1 2016, among others, reached PLN 4,216 million. The return on equity (ROE[2]) of the parent company for the period from 1 January 2017 to 31 March 2017 was 27.9% making it 12.9 p.p. higher than in the corresponding period of the previous year. In comparison with the consolidated equity as at 31 December 2016, equity increased by PLN 1,030 million (+6.0%). The change in consolidated equity was driven mainly by the result earned in Q1 2017.

Total equity and liabilities as at 31 March 2017 increased compared to 31 December 2016 by PLN 1,388 million to PLN 126,733 million. The PLN 358 million increase in total liabilities resulted mainly from the higher technical provisions and deferred tax liability. Those changes were partially offset by the lower balance of term deposits in banking activity.

The investment portfolio[3] as at 31 March 2017 and 31 December 2016 was PLN 60,746 million and PLN 62,136 million, respectively. The decrease by PLN 1,390 million was associated mainly with the lower level of available for sale financial assets in Alior Bank. Loan receivables as at 31 March 2017 were PLN 46,949 million compared to PLN 45,029 million as at 31 December 2016.

The value of technical provisions as at the end of Q1 2017 was PLN 43,010 million and accounted for 33.9% of total liabilities and equity. In comparison with 31 December 2016, provisions surged up by PLN 816 million. This movement was mainly the result of the following:

- higher unearned premium reserves in non-life insurance and resulting mainly from increased sales of motor insurance in Poland;

---

[2] Annualized ratio.

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

- higher provisions for unit-linked life insurance products if the policyholder bears the investment risk because of sales exceeding surrenders and a high positive investment result;
- higher mathematical reserves in continued business associated with the indexation of sums insured and aging portfolio.

12. Equity management

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

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

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 rests on the following principles:

- 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 less than 20% will be earmarked as retained earnings (supplementary capital) for goals associated with organic growth and innovations as well as execution of growth initiatives;
  - no less than 50% is subject to payment as an annual dividend;
  - the remaining part will be paid in the form of annual dividend or will increase retained earnings (supplementary capital) if in the given year significant expenditures are incurred in connection with execution of the PZU Group Strategy, including in particular, mergers and acquisitions;

subject to the items below;

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

External capital requirements

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

Pursuant to art. 412 section 1 and art. 489 section 3 item 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and publish an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. For the 2016 report, the publication deadline is no later than 26 weeks after the year end, i.e. until 1 July 2017. 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 entity authorized to audit financial statements.

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

13. Segment reporting

13.1 Reportable segments

13.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU, Link4, TUW PZUW.	As above.

Segment	Accounting standards	Segment description	Aggregation criteria
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (for instance trade unions), under which persons under a legal relationship with the policyholder (for instance employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment covers: 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).	
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by Alior Bank.	No aggregation
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 agreement (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

13.1.2. Information relating to geographical areas

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

- Poland;
- Baltic States;
- Ukraine.

13.2 Inter-segment settlements

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

13.3 Segment’s measure of profit

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

- in the case of corporate, mass, group, individually continued and individual insurance segments – insurance result, which is the financial result before tax and other operating revenues and costs (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 on insurance defined in PAS, taking into account the difference in the method of recognition of the net result on investments as described in the previous sentence;
- in the case of the investment segment – the investment result of PZU Group companies minus the result allocated to insurance segments;
- in the case of investment contracts – the operating result, calculated in the manner approximately equivalent to the technical result in accordance with PAS;
- in the case of banking activity and foreign insurance activity – the operating result according to local accounting standards in the country of the company’s registered offices or according to IFRS, which is the financial result before tax.

13.4 Accounting standards employed according to PAS

13.4.1. PZU

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

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

13.4.2. PZU Życie

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

What is unique to PZU Życie is the rules of accounting for insurance agreements and investment contracts according to IFRS. Detailed information on this issue is presented in the consolidated financial statements.

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

13.5 Simplifications in the segmental note

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

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

13.6 Information on key customers

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

(in millions of PLN)

13.7 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2017	1 January – 31 March 2016
Gross premium written externally	626	414
Gross premium written between segments	4	61
Gross written premium	**630**	**475**
Movement in provision for unearned premiums and gross provision for unexpired risks	(89)	(44)
Gross earned premium	**541**	**431**
Reinsurers' share in the gross written premium	(79)	(26)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(1)	(40)
Net earned premium	**461**	**365**
Investment income, including:	14	28
external operations	14	28
intersegment operations	-	-
Other net technical income	24	10
Income	**499**	**403**
Net insurance claims	(297)	(171)
Acquisition expenses	(100)	(76)
Administrative expenses	(32)	(26)
Reinsurance commissions and profit-sharing	6	5
Other	(25)	(23)
Insurance result	**51**	**112**

Mass insurance (non-life insurance)	1 January – 31 March 2017	1 January – 31 March 2016
Gross premium written externally	2,653	2,119
Gross premium written between segments	-	28
Gross written premium	**2,653**	**2,147**
Movement in provision for unearned premiums and gross provision for unexpired risks	(452)	(400)
Gross earned premium	**2,201**	**1,747**
Reinsurers' share in the gross written premium	(1)	(4)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(22)	(11)
Net earned premium	**2,178**	**1,732**
Investment income, including:	94	127
external operations	94	127
intersegment operations	-	-
Other net technical income	70	20
Income	**2,342**	**1,879**
Net insurance claims	(1,292)	(1,224)
Acquisition expenses	(415)	(359)
Administrative expenses	(142)	(146)
Reinsurance commissions and profit-sharing	(1)	3
Other	(97)	(85)
Insurance result	**395**	**68**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 January – 31 March 2017	1 January – 31 March 2016
Gross premium written externally	1,714	1,689
Gross premium written between segments	-	-
Gross written premium	**1,714**	**1,689**
Movement in the provision for unearned premiums	-	-
Gross earned premium	**1,714**	**1,689**
Reinsurers' share in the gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**1,714**	**1,689**
Investment income, including:	230	190
external operations	230	190
intersegment operations	-	-
Income	**1,944**	**1,879**
Net insurance claims and benefits and movement in other net technical provisions	(1,452)	(1,315)
Acquisition expenses	(82)	(88)
Administrative expenses	(149)	(144)
Other	(6)	(17)
Insurance result	**255**	**315**

Individual insurance (life insurance)	1 January – 31 March 2017	1 January – 31 March 2016
Gross premium written externally	408	246
Gross premium written between segments	-	-
Gross written premium	**408**	**246**
Movement in the provision for unearned premiums	2	3
Gross earned premium	**410**	**249**
Reinsurers' share in the gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**410**	**249**
Investment income, including:	180	12
external operations	180	12
intersegment operations	-	-
Income	**590**	**261**
Net insurance claims and benefits and movement in other net technical provisions	(492)	(164)
Acquisition expenses	(34)	(25)
Administrative expenses	(15)	(15)
Other	-	(2)
Insurance result	**49**	**55**

Investments	1 January – 31 March 2017	1 January – 31 March 2016
Investment income, including:	332	125
- external operations	326	119
- intersegment operations	6	6
Operating result	**332**	**125**

(in millions of PLN)

Banking activity	**1 January – 31 March 2017**	**1 January – 31 March 2016**
Revenues from commissions and fees	215	138
Investment income, including:	675	565
- external operations	675	565
- intersegment operations	-	-
Income	**890**	**703**
Costs of commissions and fees	(78)	(51)
Interest expenses	(171)	(251)
Administrative expenses	(467)	(256)
Other	(56)	(39)
Operating result	**118**	**106**

Pension insurance	**1 January – 31 March 2017**	**1 January – 31 March 2016**
Investment income, including:	1	1
external operations	1	1
intersegment operations	-	-
Other income	28	24
Income	**29**	**25**
Administrative expenses	(13)	(9)
Other	(1)	2
Operating result	**15**	**18**

Insurance - Baltic States	**1 January – 31 March 2017**	**1 January – 31 March 2016**
Gross premium written externally	315	274
Gross premium written between segments	-	-
Gross written premium	**315**	**274**
Movement in provision for unearned premiums and gross provision for unexpired risks	(21)	(5)
Gross earned premium	**294**	**269**
Reinsurers' share in the gross written premium	(16)	(12)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	7	5
Net earned premium	**285**	**262**
Investment income, including:	8	4
external operations	8	4
intersegment operations	-	-
Income	**293**	**266**
Net insurance claims and benefits	(185)	(167)
Acquisition expenses	(64)	(61)
Administrative expenses	(27)	(30)
Insurance result	**17**	**8**

(in millions of PLN)

Insurance - Ukraine	1 January – 31 March 2017	1 January – 31 March 2016
Gross premium written externally	52	58
Gross premium written between segments	-	-
Gross written premium	**52**	**58**
Movement in provision for unearned premiums and gross provision for unexpired risks	(3)	(16)
Gross earned premium	**49**	**42**
Reinsurers' share in the gross written premium	(21)	(32)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	14
Net earned premium	**28**	**24**
Investment income, including:	4	8
external operations	4	8
intersegment operations	-	-
Income	**32**	**32**
Net insurance claims and benefits	(10)	(18)
Acquisition expenses	(16)	(12)
Administrative expenses	(6)	(4)
Other	6	4
Insurance result	**6**	**2**

Investment contracts	1 January – 31 March 2017	1 January – 31 March 2016
Gross written premium	13	47
Movement in the provision for unearned premiums	-	-
Gross earned premium	**13**	**47**
Reinsurers' share in the gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**13**	**47**
Investment income, including:	19	6
external operations	19	6
intersegment operations	-	-
Income	**32**	**53**
Net insurance claims and benefits and movement in other net technical provisions	(29)	(49)
Acquisition expenses	-	(1)
Administrative expenses	(2)	(3)
Operating result	**1**	**-**

Other segments	1 January – 31 March 2017	1 January – 31 March 2016
Investment income, including:	-	(1)
- external operations	-	(1)
- intersegment operations	-	-
Other income	213	144
Income	**213**	**143**
Costs	(236)	(152)
Other	17	4
Operating result	**(6)**	**(5)**

(in millions of PLN)

Reconciliations 1 January 2017 – 31 March 2017	Net earned premium	Investment income [2]	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	461	14	(297)	(100)	(32)	51
Mass insurance	2,178	94	(1,292)	(415)	(142)	395
Group and individually continued insurance	1,714	230	(1,452)	(82)	(149)	255
Individual insurance	410	180	(492)	(34)	(15)	49
Investments	-	332	-	-	-	332
Banking activity	-	675	-	-	(467)	118
Pension insurance	-	1	-	(1)	(13)	15
Insurance - Baltic States	285	8	(185)	(64)	(27)	17
Insurance - Ukraine	28	4	(10)	(16)	(6)	6
Investment contracts	13	19	(29)	-	(2)	1
Other segments	-	-	-	-	-	(6)
Total segments	**5,089**	**1,557**	**(3,757)**	**(712)**	**(853)**	**1,233**
Presentation of investment contracts	(13)	(16)	29	-	-	-
Estimated salvage and subrogation	-	-	13	-	-	13
Valuation of equity instruments	-	11	-	-	-	11
Elimination of the loss ratio equalization provision and prevention fund	-	-		-	-	(17)
Consolidation adjustments [1]	(4)	122	5	18	(8)	19
Consolidated data	**5,072**	**1,674** [2]	**(3,710)**	**(694)**	**(861)**	**1,259**

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

Reconciliations 1 January 2016 – 31 March 2016	Net earned premium	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	365	28	(171)	(76)	(26)	112
Mass insurance	1,732	127	(1,224)	(359)	(146)	68
Group and individually continued insurance	1,689	190	(1,315)	(88)	(144)	315
Individual insurance	249	12	(164)	(25)	(15)	55
Investments	-	125	-	-	-	125
Banking activity	-	565	-	-	(256)	106
Pension insurance	-	1	-	(1)	(9)	18
Insurance - Baltic States	262	4	(167)	(61)	(30)	8
Insurance - Ukraine	24	8	(18)	(12)	(4)	2
Investment contracts	47	6	(49)	(1)	(3)	-
Other segments	-	(1)	-	-	-	(5)
Total segments	**4,368**	**1,065**	**(3,108)**	**(623)**	**(633)**	**804**
Presentation of investment contracts	(47)	(2)	49	-	-	-
Valuation of equity instruments	-	(6)	-	-	-	(6)
Valuation of properties	-	(6)	-	-	1	(4)
Elimination of the loss ratio equalization provision and prevention fund	-	-		-	-	(2)
Charges to the Company Social Benefit Fund (ZFŚS) and actuarial costs	-	-	-	-	-	-
Consolidation adjustments [1]	(4)	6	(7)	6	2	(76)
Consolidated data	**4,317**	**1,057** [2]	**(3,066)**	**(617)**	**(630)**	**716**

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

(in millions of PLN)

Geographic breakdown 1 January – 31 March 2017 and as at 31 March 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation exclusions and other)	Consolidated value
Gross written premium - external	5,401	315	52	-	5,768
Gross written premium - cross-segment	-	-	-	-	-
Revenues from commissions and fees	267	-	-	-	267
Net investment income	1,294	5	4	-	1,303
Net realized result and impairment charges on investments	(213)	-	-	-	(213)
Net movement in the fair value of assets and liabilities measured at fair value	581	3	-	-	584
Non-current assets other than financial instruments [1)]	2,611	258	4	-	2,873
Deferred tax assets	669	-	2	-	671
Assets	125,907	1,989	246	(1,409)	126,733

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

Geographic breakdown 31 December 2016	Poland	Baltic States	Ukraine	Not allocated (consolidation exclusions and other)	Consolidated value
Non-current assets other than financial instruments [1)]	2,650	276	4	-	2,930
Deferred tax assets	622	-	2	-	624
Assets	124,510	2,021	262	(1,448)	125,345

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

Geographic breakdown 1 January – 31 March 2016 and as at 31 March 2016	Poland	Baltic States	Ukraine	Not allocated (consolidation exclusions and other)	Consolidated value
Gross written premium - external	4,469	274	58	-	4,801
Gross written premium - cross-segment	28	-	-	(28)	-
Revenues from commissions and fees	185	-	-	-	185
Net investment income	982	4	8	-	994
Net realized result and impairment charges on investments	(91)	-	-	-	(91)
Net movement in the fair value of assets and liabilities measured at fair value	154	-	-	-	154
Non-current assets other than financial instruments [1)]	2,353	293	3	-	2,649
Deferred tax assets	403	-	2	2	407
Assets	107,562	1,848	240	(1,367)	108,283

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

(in millions of PLN)

14. Commentary to segment reporting and investing activity

14.1 Corporate insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2017	1 January – 31 March 2016	% change
Motor TPL insurance	168	103	63.1%
MOD insurance	205	157	30.6%
Total motor insurance	373	260	43.5%
Insurance against fire and other damage to property	142	56	153.6%
Other TPL insurance (classes 11, 12, 13)	74	67	10.4%
ADD and other insurance[1)]	41	92	(55.4%)
Total non-life insurance without motor insurance	257	215	19.5%
Total corporate insurance segment (non-life insurance)	**630**	**475**	**32.6%**

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

In Q1 2017, gross written premium in the corporate insurance segment rose PLN 155 million (+32.6% y/y) compared to Q1 2016. The following factors were recorded concerning premiums:

- positive growth rate in motor insurance sales (+43.5% y/y) offered to leasing companies and in fleet insurance (mainly TPL insurance) as a consequence of the higher average premium and number of insurance policies;
- premium growth in fire insurance and other property claims (+153.6% y/y) and other TPL insurance (+10.4% y/y) as the offshoot of signing several high unit value agreements, including two large entities from the chemical and coal industries enrolling in TUW PZUW;
- lower sales of ADD and other insurance (-55.4% y/y) – high unit value guarantee extended to PZU's subsidiary Alior Bank in the corresponding period of 2016 (effect eliminated in the consolidation process).

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	630	475	32.6%
Net earned premium	461	365	26.3%
Investment income	14	28	(50.0%)
Net insurance claims and benefits	(297)	(171)	73.7%
Acquisition expenses	(100)	(76)	31.6%
Administrative expenses	(32)	(26)	23.1%
Reinsurance commissions and profit-sharing	6	5	20.0%
Other	(1)	(13)	(92.3%)
Insurance result	**51**	**112**	**(54.5%)**
acquisition expense ratio (including reinsurance commissions)[1)]	20.4%	19.5%	0.9 p.p.
administrative expense ratio[1)]	6.9%	7.1%	(0.2) p.p.
loss ratio [1)]	64.4%	46.8%	17.6 p.p.
combined ratio (COR) [1)]	91.8%	73.4%	18.4 p.p.

[1)] Ratios calculated using net earned premium

Net insurance claims and benefits surged 73.7% while earned premium edged up by 26.3%, translating into deterioration in the loss ratio by 17.6 percentage points. A higher loss ratio was recorded chiefly in the following insurance group:

- motor own damage as a consequence of the higher average claim payment and claims frequency. Despite the rising value of claims, this effect is partially offset by the improved loss ratio in the motor TPL insurance group;
- general TPL insurance and fire insurance as a result of reporting several high unit value claims.

The above changes were partially offset by the lower level of claims and benefits in insurance for other physical losses.

The 50.0% y/y decline in income from investments allocated to the corporate insurance segment ensued chiefly from the 4.6% depreciation in the EUR-PLN exchange rate compared to 0.2% appreciation in the corresponding period of the previous year.

(in millions of PLN)

The 31.6% upswing in acquisition expenses in the corporate insurance segment compared to Q1 2016 stemming primarily from higher direct acquisition expenses is a consequence of the considerably higher sales growth rate (+32.6% y/y).

The upward movement in administrative expenses of PLN 6 million (i.e. 23.1%) compared to the corresponding period of last year, as a consequence of the higher costs of IT systems, was related to implementing products dedicated to corporate clients to be administered and sold in the Everest system. This effect was partially offset by the decline in project-related expenses.

The corporate insurance segment generated an insurance profit of PLN 51 million in Q1 2017, i.e. 54.5% less than in the corresponding period of the previous year. Suppressed profitability in the motor own damage insurance portfolio (higher average claim payment coupled with higher claims frequency) and in general third party liability insurance and fire insurance (several high unit value claims reported) chiefly triggered the decline in the insurance profit.

14.2 Mass insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2017	1 January – 31 March 2016	% change
Motor TPL insurance	1,123	771	45.7%
MOD insurance	644	508	26.8%
Total motor insurance	1,767	1,279	38.2%
Insurance against fire and other damage to property	538	525	2.5%
Other TPL insurance (classes 11, 12, 13)	132	135	(2.2%)
ADD and other insurance[1)]	216	208	3.8%
Total non-life insurance without motor insurance	886	868	2.1%
Total mass insurance segment (non-life insurance)	**2,653**	**2,147**	**23.6%**

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

In Q1 2017, gross written premium in the mass insurance segment rose PLN 506 million (+23.6% y/y) compared to the corresponding period of 2016. This change resulted primarily from the following:

- higher motor insurance gross written premium (+38.2% y/y) as an effect of the higher average premium on the coattails of price hikes (forming a response to deteriorating results in recent years) coupled with the rising number of insurance policies;
- higher premium for fire insurance and other physical losses (+2.5% y/y), including PZU DOM residential insurance and insurance offered to small and medium enterprises. Effect partially offset by the sales dip in other TPL insurance (-2.2% y/y);
- incremental premium growth in ADD and other insurance (+3.8% y/y), mostly accident and assistance insurance offered among others in bundles with motor TPL and motor own damage insurance.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	2,653	2,147	23.6%
Net earned premium	2,178	1,732	25.8%
Investment income	94	127	(26.0%)
Net insurance claims and benefits	(1,292)	(1,224)	5.6%
Acquisition expenses	(415)	(359)	15.6%
Administrative expenses	(142)	(146)	(2.7%)
Reinsurance commissions and profit-sharing	(1)	3	(133.3%)
Other	(27)	(65)	(58.5%)
Insurance result	**395**	**68**	**480.9%**
acquisition expense ratio (including reinsurance commissions)[1)]	19.1%	20.6%	(1.5) p.p.
administrative expense ratio[1)]	6.5%	8.4%	(1.9) p.p.
loss ratio [1)]	59.3%	70.7%	(11.4) p.p.
combined ratio (COR) [1)]	84.9%	99.7%	(14.8) p.p.

[1)] Ratios calculated using net earned premium

Net insurance claims and benefits in the 3-month period ended 31 March 2017 rose 5.6%, which when coupled with net earned premium being up 25.8%, translates into the loss ratio improving by 11.4 percentage points.

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

- other losses to property, mostly for subsidized crop insurance – in the corresponding period of 2016 there were many losses caused by the forces of nature. At that time, the claims caused by ground frost were up PLN 214 million compared to the average for the preceding 3 years;
- motor TPL as an effect of the changes made to the average premium and the absence of high unit value events; effect partially offset by the observed growth in the claims frequency.

These positive changes were partly offset by the higher level of the loss ratio in motor own damage and general third party liability insurance.

The 26.0% y/y decline in income from investments allocated to the mass insurance segment ensued chiefly from the 4.6% depreciation in the EUR-PLN exchange rate compared to 0.2% appreciation in the corresponding period of the previous year.

In Q1 2017 acquisition expenses totaled PLN 415 million in the mass insurance segment, signifying growth of PLN 56 million (+15.6%) compared to the corresponding period of the previous year. The rising level of direct acquisition expenses (also chiefly as an outcome of the growing motor insurance portfolio) was the driver behind the level of acquisition expenses. At the same time, a decline in direct acquisition expenses was recorded in bancassurance as the offshoot of changes made to the rules for making settlements with banks under bancassurance agreements – according to the requirements of the Insurance Activity Act, the rules for paying consideration to policyholders in group contracts were altered as of 1 April 2016 (as of Q2 2016 these expenses are treated as administrative expenses).

The dip in administrative expenses of PLN 4 million (i.e. 2.7%) compared to Q1 2016 is the consequence of lower project-related expenses and current operations pertaining to, among others, real estate costs and the Everest project.

Improved profitability in agricultural insurance chiefly contributed to the growth of PLN 327 million (+480.9%) compared to Q1 2016 in the insurance profit in the mass insurance segment (considerably lower level of mass losses). To a lesser extent this was due to motor TPL (the result of changing the average price was partially offset by the growing claims frequency).

(in millions of PLN)

14.3 Group and individually continued insurance – life insurance

Gross written premium was higher than in the corresponding period of the previous year by PLN 25 million (1.5%), which was mainly the result of the following:

- attracting more premium income in group health insurance products or individually continued products (new clients in outpatient health insurance and sales of different options of the medicine product);
- growth in group protection insurance (higher average premium and average number of riders taken out by each insured);
- up-selling of riders and raising sums insured in individually continued insurance products.

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	1,714	1,689	1.5%
Group insurance (regular premium)	1,223	1,205	1.5%
Individually continued insurance (regular premium)	491	484	1.4%
Net earned premium	1,714	1,689	1.5%
Investment income	230	190	21.1%
Net insurance claims and benefits and movement in other net technical provisions	(1,452)	(1,315)	10.4%
Acquisition expenses	(82)	(88)	(6.8)%
Administrative expenses	(149)	(144)	3.5%
Other	(6)	(17)	(64.7)%
Insurance result	**255**	**315**	**(19.0)%**
Insurance result net of the conversion effect	**236**	**304**	**(22.4)%**
acquisition expense ratio [1]	4.8%	5.2%	(0.4) p.p.
administrative expense ratio[1]	8.7%	8.5%	0.2 p.p.
insurance margin net of the conversion effect [1]	13.8%	18.0%	(4.2) p.p.

[1] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income rose PLN 40 million mainly due to the higher income on unit-linked products (principally employee pension schemes) as a result of better conditions on the equity market – the WIG index surged up by 11.9% compared to 5.5% in the corresponding period of last year. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Insurance claims and benefits and the net movement in other technical provisions totaled PLN 1,452 million (up 10.4% year on year). This change was driven by the following factor in particular:

- higher number of deaths in protection insurance compared to last year and the number of claims paid for that reason. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict;
- higher than one year ago growth in technical provisions in Employee Pension Plans (PPE, a third pillar retirement security product) - considerably better than one year ago investment performance coupled with a stable level of client contributions to unit-linked insurance accounts;
- incremental growth in the costs of benefits in health insurance as an effect of the rapid expansion of this contract portfolio;
- these effects were partially offset by the rate of conversion of long-term contracts into yearly term agreements in type P group insurance exceeding last year's level. Provisions were released for PLN 19 million, some PLN 8 million more than in the corresponding period of 2016.

Acquisition expenses in the group and individually continued insurance segment in the first 3 months of 2017 were PLN 82 million, falling by PLN 6 million (6.8%) compared to the corresponding period of last year. The factor underlying the reduction in direct and indirect acquisition expenses was the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense. At the same time, growth in acquisition expenses was recorded in health products and group protection products stemming on one hand from the rapid expansion of these types of products and on the other hand from high commission brokerage channels gaining traction.

(in millions of PLN)

Administrative expenses were up by PLN 5 million (3.5%) in Q1 2017 compared to the corresponding period of 2016 chiefly on account of the signing of a new agency agreement in the bancassurance channel in Q2 2016 as a result of which the fee for performing agency activities involving participation in the administration of protection insurance agreements is treated as an administrative expense, in contrast to the agreement previously in force that treated it as an acquisition expense. This adverse factor was counterbalanced by cost cutting in project-related activities and in current activity by constantly maintaining cost discipline.

Operating profit in the group and individually continued insurance segment in Q1 2017 dropped compared to the corresponding period of 2016 by PLN 60 million (19.0%) to PLN 255 million. The operating profit, net of the conversion effect on long-term contracts into renewable contracts in type P group insurance fell year on year by PLN 68 million (22.4%) – mainly as a result of the higher number of deaths compared to last year and the number of benefits paid for that reason. This uptick was justified by the higher number of deaths in the overall population of Poland at the outset of the year as the data published by the Central Statistical Office depict.

14.4 Individual insurance - life insurance

Gross written premium by payment type – individual insurance	1 January – 31 March 2017	1 January – 31 March 2016	% change
Regular premium	154	127	21.3%
Single premium	254	119	113.4%
Total	**408**	**246**	**65.9%**

The growth in gross written premium of PLN 162 million (65.9%) to PLN 408 million compared to Q1 2016 was the result of the following:

- higher contributions to the unit-linked insurance accounts offered jointly with Bank Millennium;
- sales launch of a new unit-linked product with Alior Bank at the outset of 2017;
- higher contributions to the unit-linked insurance accounts offered by PZU Branches, especially IKE individual retirement accounts and the Goal for the Future products;
- constantly rising level of premiums on protection products in endowments and term insurance – PZU Branches' sales continue to climb.

(in millions of PLN)

Data from the profit and loss account – individual insurance	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	408	246	65.9%
Net earned premium	410	249	64.7%
Investment income	180	12	1400.0%
Net insurance claims and benefits and movement in other net technical provisions	(492)	(164)	200.0%
Acquisition expenses	(34)	(25)	36.0%
Administrative expenses	(15)	(15)	-
Other	-	(2)	x
Insurance result	**49**	**55**	**(10.9)%**
acquisition expense ratio [1)]	8.3%	10.2%	(1.9) p.p.
administrative expense ratio[1)]	3.7%	6.1%	(2.4) p.p.
insurance margin [1)]	12.0%	22.4%	(10.4) p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. They rose by PLN 168 million in the individual insurance segment mostly on account of the growth in the result on investment products (a gain in the first 3 months of 2017 and a loss in the corresponding period of the previous year) – effect of higher yields of funds in unit-linked products in the bancassurance channel and better performance recorded in the IKE individual retirement account and the structure product called World of Profit [Świat Zysków]. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 492 million, reflecting an increase in costs by PLN 328 million compared to the corresponding period of 2016. This was caused by significantly higher increases in provisions, predominantly for unit-linked products in the bancassurance channel and to a lesser extent the same type of products offered within PZU's own network (mostly IKEs). In both cases, this resulted both from an increase in customer deposits in unit-linked fund accounts and significantly better results of investment activity in the reporting period.

In Q1 2017, acquisition expenses increased in the individual insurance segment by PLN 9 million to PLN 34 million. This was driven by a significantly higher volume of sales of unit-linked products in the bancassurance channel with prepaid commissions and by additional expenses resulting from the growing involvement of own network in the acquisition of this type of products.

Administrative expenses during the first 3 months of 2017 remained at the same level as the year before, i.e. at PLN 15 million.

The segment's operating result declined in comparison with the previous by PLN 6 million to PLN 49 million, mainly due to an increase in commissions for unit-linked products in the bancassurance channel. Another factor contributing to the decline in the profit margin was an increase in the share of the segment of investment products generating a much lower margin in the investment portfolio.

14.5 Bank segment

As at the end of March 2017, PZU together with its subsidiaries held a 29.22% stake in Alior Bank's equity. Alior Bank and its subsidiaries have been consolidated since 18 December 2015 and the bank segment has been separated within the PZU Group's results since 1 January 2016.

In Q1 of this year, the bank segment recorded operating profit of PLN 118 million or 11.3% more than in the previous year. At the same time, taking into consideration the 29.22% equity stake held by the PZU Group in the bank, in Q1 of the current year, the bank segment contributed PLN 34 million to the operating result attributable to the parent company (this does not include the adjustments of balance sheet items to fair value as at the consolidation date and their further measurement and amortization of intangible assets identified in the Alior Bank acquisition deal).

The y/y growth of the bank segment and the increases in the segment's line items result from the acquisition of the spun-off portion of Bank BPH. Net interest income ("Net investment income", "Interest expenses") was PLN 718 million or 53.1% more than in the corresponding period last year, among other factors due to a higher credit base. The interest margin[4] was 4.5% (4.3% in the same period of the previous year). The increase was caused by an efficient use of the liquidity surplus caused by the proceeds from the new share issue, before they were used to pay for the acquisition of shares in the spun-off part of Bank BPH from the GE Capital Group.

(in millions of PLN)

Impairment charges for receivables from clients ("Net result on the realization of investments and impairment charges") reached PLN 209 million and were 33,1% higher than the year before, which was driven by the increased scale of business and identification of impairment charges realized due to the merger of BPH's client base.

Net fee and commission income was PLN 137 million in Q1 2017. This represented 157% of the figures in the corresponding period of last year.

In Q1 of this year, net credit receivables from clients demonstrated a positive rate of change compared to yearend 2016 (+4.3%) and amounted to PLN 46,949 million as at 31 March 2017. Growth was recorded in both the retail client segment (consumer loans and consumer finance) and in the business client segment (operating loans).

Banking activity	1 January 2017 – 31 March 2017	1 January 2016 – 31 March 2016	% change
Revenues from commissions and fees	215	138	55.8%
Investment income, including:	675	565	19.5%
Net investment income	889	720	23.5%
Net realized result and impairment charges on investments	(209)	(157)	33.0%
Net movement in the fair value of assets and liabilities measured at fair value	(5)	2	-
Costs of commissions and fees	(78)	(51)	52.9%
Interest expenses	(171)	(251)	(31.9)%
Administrative expenses	(467)	(256)	82.4%
Other	(56)	(39)	43.6%
Operating result	**118**	**106**	**11.3%**

14.6 Investments

Net investment result and interest expenses

In the first 3 months of 2017, the PZU Group's net investment result was PLN 1,674 million compared to PLN 1,057 million in the corresponding period of 2016 (up 58.4%). After factoring in interest expenses and precluding the impact exerted on Alior Bank, its net investment result in the first 3 months of 2017 was PLN 960 million. It was higher than last year's result by PLN 517 million, which was primarily due to the following drivers:

- better performance of listed equity instruments in particular due to improved market conditions on the Warsaw Stock Exchange – the WIG index is up 11.9% compared to its 5.5% increase in the corresponding period of last year;
- PLN 64 million upsurge in the value of the equity stake held in the Azoty Group;
- purchase of 30-year high-yield bonds on the primary market for 2 bn PLN in the held to maturity bond portfolio that simultaneously improve the match between the investment portfolio and the maturity of liabilities.

The impact exerted by these drivers was partially offset by the dip in the result on interest-bearing financial assets measured at fair value as a consequence of the change in prospects for global interest rates and the Polish currency's appreciation in relation to the euro in the FX-denominated bond portfolio counterbalanced by the assessment of positive FX movements on its own debt securities.

[4] Net interest income / average level of working assets (Cash and funds with the central bank, financial assets, receivables from banks and customers) calculated at the beginning and at the end of the period; data as presented in the consolidated financial statements of the Alior Bank Group, annualized ratio.

(in millions of PLN)

Movement in net investment result after factoring in interest expenses

Net investment result after factoring in interest expenses	1 January – 31 March 2017	1 January – 31 March 2016	% change
Equity instruments	521	1	x
Azoty Group	42	(22)	x
Interest-bearing financial instruments	196	495	(60.5)%
Interest on own debt securities	(13)	(13)	x
Foreign exchange differences on own debt securities	176	(11)	x
Investment properties	35	26	34.6%
Derivatives	181	40	354.4%
Other	(178)	(73)	x
Total ex Alior	**960**	**443**	**116.7%**
Alior	527	340	55.1%
Total	**1,487**	**783**	**89.9%**

Operating income of the investment segment (based exclusively on external transactions) stood at PLN 326 million, up 173.9% from 2016, primarily due to improved market conditions on the Warsaw Stock Exchange.

At the end of March 2017, the value of the PZU Group's investment portfolio[5], excluding the impact of Alior Bank, was worth PLN 52,797 million compared to PLN 50,488 million as at the end of 2016.

The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability. Government-issued debt securities accounted for over 60% of the investment portfolio, net of Alior Bank, both as at 31 March 2017 and 31 December 2016.

In the first months of 2017, the PZU Group's investment activity focused on the continuation of strategic assumptions, in particular on the optimization of profitability of investment operations through greater diversification of the investment portfolio, which was a contributing factor to the increase in the share of corporate debt (including loans), due in part to the creation of a high-margin debt portfolio. A significant increase in the share of government-issued debt securities is a result of the purchase of PLN 2 billion 30-year bonds on the primary market for the portfolio of bonds held to maturity in order to better align the maturity structure of the portfolio of investments with that of the portfolio of liabilities.

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

(in millions of PLN)

Structure of the portfolio of investments excluding the impact of Alior Bank

Investment portfolio	31 March 2017	31 December 2016
Equity instruments, including:	7,841	7,408
Equity instruments for which fair value can be determined – listed	3,865	3,699
Equity instruments for which fair value can be determined – other	3,976	3,709
Interest-bearing financial assets, including:	42,059	40,411
Debt securities – government	34,084	32,263
Debt securities – other	3,112	3,122
Reverse repo transactions and term deposits in credit institutions	1,564	3,318
Borrowings	3,299	1,708
Investment properties	2,836	2,830
Derivatives (net value)	118	(13)
Liabilities under sell-buy-back transactions	(57)	(148)
Total investment portfolio	**52,797**	**50,488**

14.7 Pension insurance

Data from the profit and loss account – pension segment	1 January – 31 March 2017	1 January – 31 March 2016	% change
Investment income	1	1	-
Other income	28	24	16.7%
Income	**29**	**25**	**16.0%**
Administrative expenses	(13)	(9)	44.4%
Other	(1)	2	(150.0)%
Operating result	**15**	**18**	**(16.7)%**

Revenues on core business in the pension insurance segment for Q1 2017 and Q1 2016 were PLN 28 million and PLN 24 million, respectively. The PLN 4 million (16.7%) change was mainly due to a higher income from the management of the "PZU Złota Jesień" open-end pension fund, driven by a higher average net asset value due to a better situation on the financial markets.

Administrative expenses of PTE PZU increased by more than PLN 4 million y/y (+44.0%). The main contributing factor to this deviation were surcharges for the Indemnity Fund, which went up almost PLN 5 million due to the rapid growth of the "PZU Złota Jesień" open-end pension fund managed by PTE PZU.

The decline in operating profit in Q1 2017 by almost PLN 3 million y/y was caused predominantly by the receipt of an incentive fee in 2016 for the acquisition of Nordea DFE's assets (PLN 2 million).

As at the end of Q1 2017, the total net asset value of all open-end pension funds on the market was PLN 167.6 billion, up 16.8% from the end of March 2016. In the same period, OFE PZU's assets grew 16.0% to PLN 21.8 billion. In the period from January to March 2017, ZUS transferred to OFE PZU gross contributions in the amount of PLN 82 million with interest, which was 11.2% more than in the corresponding period of 2016. OFE PZU transferred PLN 166 million to ZUS in what is known as the "slide". OFE PZU's rate of return in the period of the first 3 months of 2017 was +9.4%.

(in millions of PLN)

14.8 Baltic States

Data from the profit and loss account – Baltic States segment	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	315	274	15.0%
Net earned premium	285	262	8.8%
Investment income	8	4	100.0%
Net insurance claims and benefits	(185)	(167)	10.8%
Acquisition expenses	(64)	(61)	4.9%
Administrative expenses	(27)	(30)	(10.0%)
Other	-	-	0.0%
Insurance result	**17**	**8**	**112.5%**
EUR exchange rate in PLN	4.2891	4.3559	(1.5%)
acquisition expense ratio [1)]	22.5%	23.3%	(0.8) p.p.
administrative expense ratio[1)]	9.5%	11.5%	(2.0 p.p.)

[1)] Ratios calculated using net earned premium

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

As at the end of March 2017, the share in the Lithuanian non-life insurance market was 27.8%, the share in the life insurance market was 5.9% and the share in the Estonian non-life insurance market was 15.3%. In turn, at yearend 2016, the share in the Latvian market was 28.0%.

In Q1 2017, the PZU Group's business in the Baltic states generated an insurance result of PLN 17 million compared to PLN 8 million in the corresponding period of the previous year.

This result was driven by the following factors:

- increase in gross written premium, It amounted to PLN 315 million, up PLN 41 million compared to the first quarter of the previous year. Non-life insurance recorded an increase by PLN 38 million, in particular in motor insurance driven by an upturn in insurance rates in the region. In life insurance, written premium increased by PLN 3 million (or 27.3%). The rate of growth in gross written premium in the Baltic states segment stood at 15.0%;
- increase in investment income. In Q1 2017, the result on investments reached PLN 8 million and was PLN 4 million higher than in the corresponding period of the previous year, in particular as a result of a higher valuation of bonds;
- increase the value of net claims and benefits. They amounted to PLN 185 million and were 10.8% higher than in the first quarter of the previous year. The loss ratio in non-life insurance stood at 63.6%, down 0.1 p.p. from the corresponding period of the previous year: milder weather conditions and a lower frequency of mass damage were offset by several large damage cases in Latvia and Lithuania. In life insurance, the value of benefits was PLN 12 million, up PLN 5 million compared to Q1 2016, in particular due to higher provisions for client risk;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 64 million, up 4.9% from the corresponding period of the previous year. However, the acquisition expense ratio calculated based on net earned premium declined 0.8 p.p. compared to the first quarter of the previous year as a result of an increase in the portfolio share of motor insurance entailing lower liabilities;
- lower administrative expenses. These reached PLN 27 million and were 10.0% lower than in the comparable period of the previous year. The decline in expenses drove a decrease in the administrative expense ratio which stood at 9.5%, down 2.0 p.p. relative to the same period of the previous year. The lowering of administrative expenses was possible due to the maintenance of cost discipline, notably in the IT area.

(in millions of PLN)

14.9 Ukraine

Data from the profit and loss account - Ukraine segment	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	52	58	(10.3%)
Net earned premium	28	24	16.7%
Investment income	4	8	(50.0%)
Net insurance claims and benefits	(10)	(18)	(44.4%)
Acquisition expenses	(16)	(12)	33.3%
Administrative expenses	(6)	(4)	50.0%
Other	6	4	50.0%
Insurance result	**6**	**2**	**200.0%**
UAH exchange rate in PLN	0.1484	0.1500	(1.1%)
acquisition expense ratio [1)]	57.1%	50.0%	7.1 p.p.
administrative expense ratio[1)]	21.4%	16.7%	4.8 p.p.

[1)] Ratios calculated using net earned premium

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

The Ukrainian non-life insurance market share at yearend 2016 was 3.5% and the life insurance market share was 8.7%, ranking both companies in 5th place on the market according to the Insurance TOP quarterly[6].

The Ukraine Segment closed Q1 2017 with operating profit of PLN 6 million, compared to PLN 2 million in the corresponding period of last year.

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

- decline in gross written premium, It amounted to PLN 52 million, down PLN 6 million compared to Q1 2016. The main driver behind the drop in gross written premium was non-life insurance in which a new contract was signed at the beginning of 2016 with a large corporate client. In life insurance, written premium was PLN 9 million and remained at the same level as in the previous year;
- lower investment income. It reached PLN 4 million and was 50.0% lower than in the corresponding period of last year, due predominantly to lower income from investments at a client's risk;
- decrease in costs of claims and benefits. These reached PLN 10 million and were 44.4% lower than in Q1 2016. In life insurance, the value of benefits decreased due to the reversal of certain provisions for client risk: following a review of such provisions in non-life insurance, technical provisions were derecognized;
- higher acquisition expenses. They stood at PLN 16 million compared to PLN 12 million in Q1 2016. The largest increase (by PLN 3 million) was recorded in non-life insurance and was driven mainly by amendments to reinsurance contracts which reduced the reinsurer's share in acquisition expenses;
- increase in administrative expenses. They were PLN 6 million vis-à-vis PLN 4 million in the corresponding period of the previous year. This increase was associated with indexation of salaries and higher real estate maintenance expenses, among other contributing factors. The segment's administrative expense ratio went up 4.8 p.p. to 21.4%.

[6] Insurance TOP #4 2016

(in millions of PLN)

14.10 Investment contracts

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

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

Volumes obtained on investment contracts by payment type	1 January – 31 March 2017	1 January – 31 March 2016	% change
Regular premium	13	13	-
Single premium	-	34	(100.0)%
Total	**13**	**47**	**(72.3)%**

Gross written premium generated on investment contracts in Q1 2017 fell by PLN 34 million (-72.3%) compared to the corresponding period of 2016, to PLN 13 million. The changes in gross written premium were caused mainly by the withdrawal of short-term endowment insurance products (term deposits in the form of insurance products) from own channel offering in June 2016.

Data from the profit and loss account – investment contracts	1 January – 31 March 2017	1 January – 31 March 2016	% change
Gross written premium	13	47	(72.3)%
Group insurance	1	1	-
Individual insurance	12	46	(73.9)%
Net earned premium	13	47	(72.3)%
Investment income	19	6	216.7%
Net insurance claims and benefits and movement in other net technical provisions	(29)	(49)	(40.8)%
Acquisition expenses	-	(1)	x
Administrative expenses	(2)	(3)	(33.3)%
Other	-	-	x
Operating result	**1**	**-**	**x**
operating profit margin [1)]	7.7%	-	7.7 p.p.

[1)] Ratios calculated using gross written premium

Result on investing activity in the investment contracts segment improved by PLN 13 million vis-à-vis the previous year, mainly as a result of a better rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel, offset by a decrease in investments of endowment insurance products. At the same time, the drop in assets in unit-linked products contributed to the reduction of the management fee income, which was also recognized under this line item.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 20 million to PLN 29 million due to the withdrawal, in mid-2016, of short-term endowment products from the range of products offered in own channel (the absence of written premium ceases growth in technical provisions, while the value of benefits paid to persons reaching the endowment age is offset by a commensurate movement in technical provisions).

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

Administrative expenses totaled PLN 2 million, down 33.3% from the corresponding period of 2016 as a result of a decrease in the portfolio of agreements in this segment.

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

15. Impact of non-recurring events on operating results

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance was treated as a non-recurring event and in Q1 2017 was PLN 8 million higher than in the corresponding period of the previous year.

In Q1 2016, above-average indemnity payments in agricultural insurance versus the last 3 years were recorded, having reached PLN 214 million.

16. Macroeconomic environment

Key trends in the economy and rate of economic growth

Based on monthly economic activity data, it can be estimated that the rate of GDP growth in the first quarter of this year will exceed 4% y/y. In the first quarter of this year, industrial production sold (not adjusted for seasonal differences) increased 7.3% y/y compared to 1.5% y/y the quarter before. This acceleration reflected both a clearly improving economic situation in the euro area (including in Germany) and a recovery in domestic demand. The favorable difference in the number of business days was also a contributing factor. In the same period, construction and installation production (not adjusted for seasonal differences) increased 5.6% y/y vis-à-vis a 13.2% decrease y/y in Q4 2016 (own estimates based on GUS data). The long-awaited new cycle of public infrastructural projects has already begun and an increasingly larger number of such projects will enter the implementation phase. This phenomenon is coupled with the continuing very good economic situation in the residential construction industry. In Q1 2017, the rate of growth in retail sales also increased (to 7.1% y/y in constant prices) despite a slight downturn in food sales which resulted from the shift in the timing of Easter and the associated postponement of Easter-related purchases to April. This kind of a structure of sales testifies to the strengthening of consumer demand.

It can be predicted that the first quarter of the year experienced a strong rate of annual growth in expenditures on fixed assets, which was also largely due to strong baseline effects. No official data have been published yet but it seems that, for the first time since the last quarter of 2015 this growth was positive, compared to -9.8% y/y in Q4 2016. At the same time, the rate of growth in household consumption should surpass the 4.5% y/y recorded in the previous quarter. The growth in consumption is driven, among other factors, by the record low unemployment rate and the continuing increase in overall employment. The clear cyclical recovery in the euro area has a favorable effect on exports.

Labor market and consumption

In Q1 2017, the situation on the labor market improved noticeably. The average monthly employment in the corporate segment increased by 183 thousand persons between March of this year and December 2016 vis-à-vis a 101 thousand increase in the corresponding period of the previous year. The annual growth rate of employment increased in Q1 to 4.4% y/y, compared to 2.3% y/y in Q4 2016. However, this growth was strongly affected by the annual update of the pool of companies subject to the duty of reporting to the Central Statistical Office (GUS). At the same time, demand for labor continued to grow considerably – at the end of March the number of job offers was nearly 28% higher than a year earlier. Employers also reported difficulties finding appropriately qualified staff.

The unemployment rate not adjusted for seasonal differences was 8.1% in March 2017, down 0.2 percentage points from December 2016 and down 1.8 percentage points compared to March of the previous year. The rate of registered unemployment adjusted for seasonal differences has also been decreasing steadily.

The annual rate of growth in the average monthly salary in the corporate sector accelerated significantly in Q1 2017: to 4.5% y/y from 2.9% y/y in Q4 2016. However, the real rate of growth in salaries and wages in the corporate sector declined somewhat in this period to 2.5% y/y from 2.6% y/y the quarter before. The consumer trend indicators published by GUS reached record high levels in the first quarter of this year. Despite an increase in inflation, favorable conditions remained for growth in consumption, due in part to the improved situation on the labor market and higher social benefits than in the corresponding period of the previous year (the Family 500+ program).

Monetary policy, interest rates and inflation

The rate of growth in the prices of consumer goods and services (consumer price index) accelerated markedly in Q1 2017. The CPI increased to 2.0% y/y from 0.2% y/y in the last quarter of 2016. This increase in the annual inflation rate was affected predominantly by the growing prices of fuels and food. In the first quarter of the year, core inflation (net of food and energy prices) went up to 0.3% y/y from -0.1% y/y the quarter before, demonstrating a very slow upsurge in demand pressure on prices. At the same time, cost pressure on the prices of consumer goods and services intensified. In Q1 2017, the production price index (PPI) went up to 4.4% y/y compared to 1.9% y/y in the previous quarter.

During the first four months of 2017, the Monetary Policy Council did not alter any monetary policy parameters. The reference interest rate remained at the level of 1.5% as set in March 2015. According to the Monetary Policy Council, the existing level of interest rates keeps the Polish economy on the sustainable growth path and helps it maintain macroeconomic balance.

Public finance

The Central Statistical Office (GUS) announced that in 2016 the deficit of the central and local government institutions sector was PLN 44.7 billion, or 2.4% of GDP, and the that the sector's debt amounted to PLN 1,006.3 billion, or 54.4% of GDP. It is assumed in Poland's Long-Term Financial Plan for 2017-2020 that the deficit and debt of the central and local government institutions sector will decrease by 2020 to 1.2% and 52.1% of GDP, respectively.

To reach this objective, efforts aimed at sealing the tax system in order to help reduce the tax gap by approx. PLN 20 billion in 2017-2020 have been undertaken.

The state budget deficit after March of this year was only PLN 2.3 billion, which accounted for approx. 4% of the plan for 2017 and was an excellent result from the historical standpoint. The drivers that brought about this change were amendments to tax regulations supporting the dynamics of collection of budget income.

In March of this year, approximately 53% of loan requirements for 2017 were financed.

Situation on the financial markets

After the sharp hikes in Q4 2016, yields of 10-year German and U.S. treasury bonds in Q1 2017 remained relatively stable. This suggests that improved macroeconomic data from developed economies and higher inflation rates were discounted by investors for the most part already at the end of 2016. The increase in risk aversion in Europe in the second half of March was driven by concerns involving political risk, including the elections in France. Ultimately, in Q1 2017, yields on 10-year treasury bonds on the base markets did not change considerably. For Germany, they went up from approximately 0.20% to around 0.30%, and in the United States they reached 2.40% at the end of the quarter, not far off from the end of 2016.

In Q1 2017, yields on Polish 10-year treasury bonds temporarily reached even the 4% mark, which may have also been driven by good data from the Polish economy and its environment as well as the hike in inflation. In March, however, we recorded a slight decline in the risk premium. Therefore, ultimately, at the end of March 2017, yields on Polish 10-year treasury bonds decreased to approximately 3.50%, which was slightly below the 3.60% level recorded at the end of 2016. In turn, yields on Polish 1-year treasury securities maturing in Q1 2017 increased by approximately 15 basis points to nearly 1.60%.

In Q1 2017, the difference between yields offered by Polish and German 10-year treasury securities remained in excess of 300 basis points, momentarily surpassing even the 350 basis point mark.

According to Ministry of Finance data, the share of foreign investors in treasury bonds issued for the domestic market was 32.8% at the end of February 2017, which represented a slight decrease compared to yearend 2016.

The euro to U.S. dollar exchange rate increased from approx. 1.05 at the end of 2016 to approx. 1.07 at the end of March 2017. In Q1 2017, the Polish currency appreciated against the euro (EURPLN) by 4.6% and at the same time appreciated against the U.S. dollar (USDPLN) by 5.6%. The Polish zloty also appreciated against the Swiss franc (CHFPLN) by 0.9%.

The improving global economic situation was reflected in higher stock market indices, particularly in Europe where valuation levels were lower than on the U.S. market. Dow Jones Composite 65 in the United States went up in Q1 2017 by less than 4% whereas the German DAX 30 surged by more than 7%.

In Q1 2017, the Polish broad-gauge index WIG hiked an impressive nearly 12%. The blue-chip WIG20 index recorded an increase of a similar magnitude. It would be reasonable to associate such a good trend on the Polish stock market with a strong acceleration of economic growth in Poland and an optimistic global economic situation.

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

PZU did not publish any standalone or consolidated result forecasts.

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

18.1 Non-life insurance

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

- potential slowdown in Poland's economic growth due to deteriorating external circumstances, resulting in a mismatch with the expected rate of growth in investments coupled with uncertainty and a poorer outlook for economic growth. This may trigger cuts in household spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of mortgage loans and associated borrowers' insurance products and a slump in demand for other non-life insurance products. A poorer financial standing of companies would result in an elevated credit risk and a higher loss ratio on the financial insurance portfolio;
- prospect of higher rates of inflation and economic growth, driving an upsurge in yields on treasury bonds, which is beneficial for the PZU Group in the long term, even though it may unfavorably affect investment income in the short term. Numerous risk factors intensifying volatility on the financial markets in 2017, such as the potentially painful effects of hardly predictable political decisions or election results in key European Union states, may significantly change the outlook for various asset classes on financial markets;
- judicial decisions of the Supreme Courts regarding the amounts of monetary compensation for moral damages disbursed from third-party liability insurance of motor vehicle owners to relatives of the injured person for harm resulting from a breach of the relative's personal rights, good even if the personal injury occurred before 3 August 2008;
- possible increase in claims handling costs due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims;
- increase in the prices of spare parts affecting claims handling costs due to the depreciation of the Polish zloty against the euro;
- role of „law firms focused on filing claims" gaining traction in the proces of handling claims reported in previous years;
- administrative decisions issued by the Office for Competition and Consumer Protection (UOKiK) and social pressures on the prices of motor insurance products forcing the insurance company to modify its pricing policy.

18.2 Life insurance

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

- potential intensification of competition in group insurance resulting from strengthening role of brokers in this segment and the requirement to invite tenders for group insurance by entities subject to the requirements of the Act of 29 January 2004 entitled the Public Procurement Law (Journal of Laws of 2013, Item 907; hereinafter "Public Procurement Law");

- mismatch between future reality and current expectations regarding a decrease in the rate of unemployment or an increase in private consumption which may translate into a lack of growth in demand for insurance products;
- changes in the legal or regulatory conditions of the conduct of business, i.e. amendments to the Insurance Activity Act, the introduction of new recommendations by the Polish Financial Supervision Authority and pro-consumer case law of the courts;
- changes in the financial intermediation market, stopped growth of popularity of independent financial consulting and resulting reduction in the number of sales channels for insurance products;
- changes in the current mortality and morbidity levels;
- behavior of the capital market, which impacts the interest in the unit-linked products offered by PZU Życie;
- lack of a precise definition of the scope of exemptions pertaining to e.g. insurance services or medical services in the amended VAT Act;
- changes in regulations applicable to banks, which may reduce the number of mortgage loans and insurance for the borrowers;
- recommendations and guidelines of the supervisory authorities as regards remuneration of insurance intermediaries;
- increasing role of the so-called "insurance claims firms" in the process of handling of claims reported in previous years;
- changes in the individual insurance market caused by product modifications in line with Council Directive 2004/113/EC and judgment of the European Court of Justice (judgment in case C-236/09 (Test-Achats), of 1 March 2011) that may have significant influence on the value of new business and the technical result.

18.3 Pension funds

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

18.4 Investment activity

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

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

18.5 Banking activity

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

- operation in the environment of record low interest rates, which puts pressure on the level of net interest margin.

- macroeconomic situation in the Polish economy – the rise in gross domestic product, employment and salaries, coupled with the historically low level of interest rates and low prices of energy fuels has a positive influence on the sales of loans and credit portfolio quality;
- possible changes in the legal environment, including mainly the legislative solution of the issue of foreign currency residential loans, likelihood of increasing banks' contributions to BFG funds and potentially an obligation to make additional contributions to BFG.

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

In the 3-month period ended 31 March 2017, neither PZU nor its subsidiaries issued, redeemed or repaid any debt securities or equity securities.

20. Default or breach of material provisions of loan agreements

During the 3 months ended 31 March 2017, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no remedial actions were taken until the end of the reporting period.

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

In the 3-month period ended 31 March 2017, neither PZU nor its subsidiaries granted any sureties or guarantees for loans or borrowings to any single entity or any subsidiary of such an entity the total amount of which sureties or guarantees would be the equivalent of at least 10% of PZU's equity.

22. Dividends

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

As at the date of conveying this periodic report, the Management Board did not adopt a resolution on a proposed method of distribution of PZU's net profit for the year ended 31 December 2016 in the amount of PLN 1,593 million.

23. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance 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 litigations are of a typical and repetitive nature and usually no particular one of them is of material importance to the PZU Group.

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

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

During the 3 months ended 31 March 2017 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries, the unit value of which was at least 10% of PZU's equity.

As at 31 March 2017, the value of the subject matter of the litigation in all the 163,217 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 4,625 million. Out of this amount, PLN 3,388 million relates to liabilities and PLN 1,237 million to receivables of PZU Group companies, which represented, respectively, 25.94% and 9.48% of PZU's equity according to PAS.

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

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

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

The challenged resolution of the Ordinary Shareholder Meeting of PZU distributed the net profit of PLN 3,280,883 thousand generated in 2006 as follows:

- PLN 3,260,883 thousand was transferred to supplementary capital;
- PLN 20,000 thousand was transferred to the Company Social Benefit Fund.

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

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

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

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

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

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

On 23 September 2015, a copy of the statement of claim with enclosures was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169 million with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with adoption of resolution no. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw. On 18 December 2015, PZU replied to the statement of claim requesting to dismiss the suit in its entirety. On 1 April 2016, MSC filed a pleading in which it responded to PZU's assertions, allegations and petitions and raised new arguments in the case. On 30 June 2016, PZU filed a response to MSC's most recent pleading along with requests for evidence. In a 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 March 2017, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

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

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

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

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

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

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

23.2 Proceedings conducted by President of UOKiK against PZU

On 30 December 2011, the President of UOKiK issued a decision to impose a fine of PLN 56,605 thousand 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 22 October 2012, PZU received a response on its appeal from the UOKiK President, to which PZU replied on 5 November 2012. On 27 March 2015, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. On 21 May 2015, the UOKiK President filed an appeal. On 24 June 2015, PZU filed a response to the appeal of the UOKiK President. By judgment of 6 December 2016, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. The Regional Court in Warsaw set a date for the hearing on 19 July 2017.

PZU established a provision for this penalty in the amount of PLN 57 million as at 31 March 2017, 31 December 2016 and 31 March 2016.

23.3 Proceedings conducted by UOKiK President against PZU Życie

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

As it did not concur with the findings concerning the facts of the case or the legal reasoning set forth in this decision, the Management Board of PZU Życie filed an appeal with the Competition and Consumer Protection Court (SOKiK), in which it lodged 38 allegations concerning substantive and formal legal matters against the decision reached by the President of the Office of Competition and Consumer Protection (UOKiK). In the opinion of the Management Board of PZU Życie, when this decision was made the authority in question failed to give consideration to the full extent of the evidentiary material and it committed an erroneous legal qualification, whereby it made the unfounded assumption that PZU Życie held a dominant market position.

After many years of proceedings, on 30 September 2015 PZU Życie paid the penalty of PLN 50 million and the ensuing costs with which it was debited. On 18 March 2016 PZU Życie submitted a cassation complaint to the Supreme Court. In its ruling of 6 April 2017 the Supreme Court accepted this complaint to be examined at a hearing. The date of this hearing is 2 June 2017. Since PZU Życie has paid the penalty, it was not necessary to maintain an additional provision for this purpose as at 31 March 2017, 31 December 2016 or 31 March 2016.

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

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

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

PBG and Hydrobudowa belong to the same capital 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 pronounced its decision in which it approved the composition struck with PBG's creditors and on 20 July 2016 it handed down its decision to end the insolvency proceedings. This decision is legally binding. Upon execution of this composition and the ensuing reduction of accounts receivable to 20.93% of the reported amount due, PZU received 206,139 bonds from PBG with a nominal value of PLN 21 million and 24,241,560 shares in PBG with a nominal value of PLN 24 million. These bonds and equities are not recognized in the consolidated financial statements because their fair value is treated as being equal to zero. However, they are recognized in the off-balance sheet records.

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

24. Other information

24.1 Assessment of PZU Group companies by rating agencies

Issuer rating

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

(in millions of PLN)

Current rating

On 28 March 2017, S&P affirmed its financial strength and credit ratings for PZU and PZU Życie awarded on 31 October 2016 at A-. The outlook remained unchanged (negative).

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

Company name	Rating and outlook	Date of award/update	Previous rating and outlook	Date of award/update
PZU				
Financial strength rating	A- /negative/	31 October 2016	A- /negative, watch/	21 January 2016
Credit rating	A- /negative/	31 October 2016	A- /negative, watch/	21 January 2016
PZU Życie				
Financial strength rating	A- /negative/	31 October 2016	A- /negative, watch/	21 January 2016
Credit rating	A- /negative/	31 October 2016	A- /negative, watch/	21 January 2016

Poland's credit rating

On 21 April 2017, S&P confirmed Poland's rating at BBB+/A-2 for long- and short-term liabilities in foreign currencies, respectively, and at A-/A-2 for long- and short-term liabilities in the domestic currency, respectively. The outlook is stable.

(in millions of PLN)

24.2 Related party transactions

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

In the period of 3 months ended 31 March 2017, neither PZU nor its subsidiaries executed any single or multiple transactions 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.

24.2.2. Turnovers and balances of transactions executed with related parties

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2017 and as at 31 March 2017		1 January – 31 December 2016 and as at 31 December 2016		1 January – 31 March 2016 and as at 31 March 2016	
	Key management staff of the main entities 1)	Other related parties 2)	Key management staff of the main entities 1)	Other related parties 2)	Key management staff of the main entities 1)	Other related parties 2)
Gross written premium						
in non-life insurance	-	1	-	3	-	1
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Costs	-	-	-	-	-	-
Receivables	-	1	-	-	-	-
Liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	-	-

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

24.3 Headcount restructuring

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

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

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

The process is implemented in accordance with the adopted timetable. On 24 March 2017, the first round of group layoffs at PZU and PZU Życie was launched.

24.4 Acquisition of Bank Pekao SA

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 Bank Pekao SA ("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 for a stake in Pekao ("SPA") and other agreements necessary for the scheduled transaction.

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

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

On 29 March 2017, the PZU Management Board and the PZU Supervisory Board of agreed to enter into an annex to the SPA with UniCredit and PFR and to enter into annexes to the consortium agreement and the shareholder agreement with PFR. Subsequently, on 29 March 2017, PZU, PFR and UniCredit signed an annex to the SPA.

The purpose of signing the annexes 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 will not be 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. The Parties anticipate that the acquisition of the whole equity stake in Pekao forming the subject matter of the Transaction will take place in a single tranche on the closing date of the Transaction, i.e. that PZU will directly acquire a stake in Pekao representing approximately 20% of the total number of votes and PFR will directly acquire a stake in Pekao representing approximately 12.8% of the total number of votes.

The price agreed by the parties is PLN 123 per share, which implies 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 is PLN 6,457 million. As a rule, the SPA does not provide for any grounds to adjust the purchase price at a later point in time, except for an automatic decrease in the total purchase price by the amount of dividends disbursed to the Seller.

The execution of the Transaction is contingent on the fulfillment of the conditions precedent specified in the SPA, which include 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).

On 16 May 2017 the Parties signed a memorandum of understanding according to which the closing of the Transaction, i.e. the execution of the transaction in which PZU and PFR acquire the equity stake in Pekao from UniCredit will transpire on 7 June 2017, one business day prior to Pekao's extraordinary shareholder meeting convened for 8 June 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 have 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 in the first stage of the Transaction.

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 envisage the execution of a contract governing the basic rules for the spin-off (in the IT context) of Pekao from the Seller's group. Such a contract will, in particular, set forth the rules for ensuring the continuity of provision of process support services based on the IT systems in place in Pekao and will govern the rules and costs associated with securing Pekao's self-sufficiency following the execution of the Transaction in the context of access to services and rights to software.

Furthermore, the Parties agreed that their intention is for Pioneer Pekao Investment Management SA (and hence, indirectly, Pioneer Pekao TFI SA), Pekao Pioneer PTE SA and Dom Inwestycyjny Xelion Sp. z o.o. to be full members of the Pekao Group. For this reason, the SPA contains a term sheet for the acquisition of equity stakes in entities owned by the Seller (or members of its group) rather than Pekao as at the date of the SPA.

It was agreed that the maximum purchase price for the stakes in Pioneer Pekao Investment Management SA, Pekao Pioneer PTE SA and Dom Inwestycyjny Xelion Sp. z o.o. will not exceed the total amount of PLN 634 million and that the stakes will be acquired for this price either by Pekao or by PZU or by an entity selected by PZU. As a rule, no grounds are provided for to adjust the said purchase price at a later point in time, except for an automatic decrease in the total purchase price by the value of dividends disbursed to the Seller or members of its group.

In connection with the SPA, PZU and PFR also entered into a consortium agreement on 8 December 2016. The consortium agreement defines 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 29 March 2017, PZU and PFR signed an annex to the Consortium Agreement aimed at adapting it to the new structure of the Transaction.

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

Shareholder agreement between PZU and PFR

On 23 January 2017, PZU and PFR signed a shareholder agreement ("Shareholder Agreement") forming part of the documentation of the acquisition of a significant stake in Pekao, as described above. 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 will also commence negotiations aimed at executing an additional trilateral agreement with the said entity in order to clarify the parties' mutual relationships in the context of the wording of the Shareholder Agreement and the financing documentation for PFR;
- the manner of conduct by the parties aimed at monitoring the parties' performance of the obligations arising from the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies (Journal of Laws of 2016 Item 1639) and preventing the obligation to announce a tender offer to subscribe for Pekao shares in accordance with the provisions of the said Act.

The Shareholder Agreement will enter into force on the date of execution of the first stage of the Transaction of the acquisition of an equity stake in Pekao by PZU and PFR.

The Shareholder Agreement has been entered into 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.

The governing law for the Shareholder Agreements is Polish law.

24.5 Audit by the KNF Office in PZU Życie

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

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

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

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

As at the date of conveying this periodic report, Alior Bank and GE Investment Poland sp. z o.o. (GEIP), DRB Holdings B.V. and Selective American Financial Enterprises, LLC (collectively, the "Bank BPH Sellers") did not reach an agreement as to the determination of the final purchase price for Bank BPH's Core Business. The difference of opinions between Alior Bank and the Bank BPH Sellers concerning the disputed amount of 145 million will be resolved by an expert, i.e. an auditor firm appointed in accordance with the provisions of the agreement for the purchase of Bank BPH's Core Business.

24.7 Situation in Ukraine

In the 3 month period ended 31 March 2017, despite the first signs of improvement in the economic situation and stabilization of the political situation in Ukraine, the insurance market continued to operate in challenging circumstances stemming from the country's weak economy, low client involvement, devaluation processes and a slump in the liquidity of the banking system. The market continued to be characterized by a high level of expenses associated with sales of insurance products, problems experienced by a certain group of insurance companies with maintaining current liquidity and a deterioration of trust among the population caused by liquidity problems affecting a portion of the banking system. The trend, which began in 2014, in which a steadily increasing number of clients opted for reliable and solvent insurers with Western equity stakes ceased in favor of the price criterion. Despite these circumstances, PZU Ukraine and PZU Ukraine Life Insurance, through diversification of their portfolios and sales channels, were more flexible in responding to market changes and fulfilled their adopted sales plans.

The PZU Management Board, in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance, 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 Insurance will be continued in accordance with the adopted assumptions. However, economic instability in Ukraine may adversely affect the future financial standing and performance of PZU Ukraine and PZU Ukraine Life Insurance in a manner that currently cannot be reliably predicted. The consolidated financial statements reflect the current judgments of the PZU Management Board in this respect.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2017	31 December 2016	31 March 2016
I. Intangible assets, including:	362,263	377,535	358,163
- goodwill	-	-	-
II. Investments	32,594,757	31,476,581	32,286,248
1. Real property	386,319	387,790	471,154
2. Investments in subordinated entities, including:	9,982,847	9,664,078	8,351,746
- investments in subordinated entities measured by the equity method	9,594,569	9,274,657	8,351,746
3. Other financial investments	22,225,591	21,424,713	23,463,348
4. Deposit receivables from ceding companies	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,827,623	2,252,438	2,079,447
1. Receivables on direct insurance	1,730,180	1,752,142	1,519,420
1.1. From subordinated entities	486	3,318	58,367
1.2. From other entities	1,729,694	1,748,824	1,461,053
2. Reinsurance receivables	141,161	130,137	70,997
2.1. From subordinated entities	70,324	62,733	13,219
2.2. From other entities	70,837	67,404	57,778
3. Other receivables	956,282	370,159	489,030
3.1. Receivables from the state budget	92,280	11,486	115,767
3.2. Other receivables	864,002	358,673	373,263
a) from subordinated entities	14,908	74,683	9,373
b) from other entities	849,094	283,990	363,890
V. Other assets	706,913	1,272,661	609,333
1. Property, plant and equipment	113,374	124,630	128,090
2. Cash	593,539	1,148,031	481,243
3. Other assets	-	-	-
VI. Prepayments and accruals	2,687,518	2,039,415	1,856,795
1. Deferred tax assets	-	-	-
2. Capitalized acquisition expenses	1,390,141	1,208,626	1,068,856
3. Posted interest and rents	-	-	-
4. Other prepayments and accruals	1,297,377	830,789	787,939
VII. Unpaid share capital	-	-	-
VIII. Treasury stock	-	-	-
Total assets	**39,179,074**	**37,418,630**	**37,189,986**

(in thousands of PLN)

Interim balance sheet (continued)

LIABILITIES AND EQUITY	31 March 2017	31 December 2016	31 March 2016
I. Equity	13,055,076	12,219,012	12,817,127
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	4,889,194	4,889,182	4,446,438
3. Revaluation reserve	6,143,440	5,650,527	5,998,954
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	1,592,951	-	2,248,522
6. Net profit (loss)	343,139	1,592,951	36,861
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated debt	-	-	-
III. Technical provisions	20,777,811	19,740,609	19,109,068
IV. Reinsurers' share in technical provisions (negative figure)	(941,025)	(921,520)	(990,393)
V. Estimated salvage and subrogation (negative figure)	(101,801)	(104,300)	(90,985)
1. Gross estimated salvage and subrogation	(102,581)	(105,242)	(91,441)
2. Reinsurers' share in estimated salvage and subrogation	780	942	456
VI. Other provisions	592,492	385,844	582,230
1. Provisions for pension benefits and other compulsory employee benefits	54,235	44,131	60,683
2. Deferred tax liability	464,253	271,943	436,378
3. Other provisions	74,004	69,770	85,169
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	4,865,384	5,156,199	4,996,151
1. Liabilities on direct insurance	396,819	461,809	373,218
1.1. To subordinated entities	1,007	3,820	729
1.2. To other entities	395,812	457,989	372,489
2. Reinsurance liabilities	186,843	117,534	142,297
2.1. To subordinated entities	10,118	2,793	3,349
2.2. To other entities	176,725	114,741	138,948
3. Liabilities on the issue of own debt securities and drawn loans	3,605,913	3,764,983	3,632,467
4. Liabilities to credit institutions	-	-	2
5. Other liabilities	562,508	694,859	686,159
5.1. Liabilities to the state budget	21,318	232,498	22,270
5.2. Other liabilities	541,190	462,361	663,889
a) to subordinated entities	36,676	10,715	72,375
b) to other entities	504,514	451,646	591,514
6. Special-purpose funds	113,301	117,014	162,008
IX. Prepayments and accruals	931,137	942,786	766,788
1. Accrued expenses	895,097	904,276	733,705
2. Negative goodwill	-	-	-
3. Deferred income	36,040	38,510	33,083
Total liabilities and equity	**39,179,074**	**37,418,630**	**37,189,986**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2017	31 December 2016	31 March 2016
Book value	13,055,076	12,219,012	12,817,127
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (in PLN)	15.12	14.15	14.84
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	15.12	14.15	14.84

2. Interim statement of off-balance sheet line items

Off-balance sheet items	31 March 2017	31 December 2016	31 March 2016
1. Contingent receivables, including:	6,839,240	4,357,144	4,571,422
1.1. Guarantees and sureties received	3,243	1,957	17,897
1.2. Other [1)]	6,835,997	4,355,187	4,553,525
2. Contingent liabilities, including:	4,687,444	4,690,077	4,608,979
2.1. Guarantees and sureties given	3,627,404	3,790,755	3,670,697
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	592,513	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party assets not recognized in assets	115,590	117,710	133,120
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**11,642,274**	**9,164,931**	**25,830,304**

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

(in thousands of PLN)

3. Interim technical non-life insurance account

Technical non-life insurance account	1 January – 31 March 2017	1 January – 31 March 2016
I. Premium income (1-2-3+4)	2,554,662	2,025,321
1. Gross written premium	3,696,131	2,714,054
2. Reinsurers' share in the gross written premium	78,826	22,027
3. Movement in the provision for unearned premiums and provision for gross unexpired risks	1,043,352	614,213
4. Reinsurers' share in the movement in the provision for unearned premiums	(19,291)	(52,493)
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	64,200	56,740
III. Other net technical income	93,841	29,583
IV. Claims (1+2)	1,541,197	1,343,110
1. Net claims paid	1,583,436	1,522,491
1.1. Gross claims paid	1,624,361	1,554,039
1.2. Reinsurers' share in claims paid	40,925	31,548
2. Movement in the net provision for outstanding claims	(42,239)	(179,381)
2.1. Movement in the gross provision for outstanding claims	(3,280)	(173,788)
2.2. Reinsurers' share in the movement in the provision for outstanding claims	38,959	5,593
V. Movement in other net technical provisions	-	-
1. Movement in other gross technical provisions	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts including movement in provisions	(168)	(46)
VII. Insurance activity expenses	659,652	573,682
1. Acquisition expenses, including:	502,458	417,104
- movement in capitalized acquisition expenses	(181,515)	(111,677)
2. Administrative expenses	163,145	163,908
3. Reinsurance commissions and profit-sharing	5,951	7,330
VIII. Other net technical expenses	115,330	104,659
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**396,692**	**90,239**

(in thousands of PLN)

4. Interim non-technical profit and loss account

Non-technical profit and loss account	1 January – 31 March 2017	1 January – 31 March 2016
I. Technical result of non-life insurance or life insurance	396,692	90,239
II. Investment income	181,637	253,132
1. Investment income on real estate	1,488	1,189
2. Investment income from subordinated entities	(1,038)	1,068
2.1. On ownership interests or shares	-	-
2.2. on loans and debt securities	(1,038)	1,068
2.3. on other investments	-	-
3. Other financial investment income	30,516	50,100
3.1. on ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	2,829	3,079
3.2. on debt securities and other fixed income securities	46,280	57,244
3.3. on term deposits in credit institutions	(6,258)	(20,529)
3.4. on other investments	(12,335)	10,306
4. Gain on revaluation of investments	1,216	54
5. Gain on realization of investments	149,455	200,721
III. Unrealized investment gains	173,350	214,216
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	163,489	138,838
1. Real estate maintenance expenses	1,243	1,646
2. Other investment activity expenses	4,455	3,369
3. Loss on revaluation of investments	178	7
4. Loss on realization of investments	157,613	133,816
VI. Unrealized investment losses	132,843	217,512
VII. Net investment income after including costs transferred to the technical non-life insurance account	64,200	56,740
VIII. Other operating revenues	238,627	79,727
IX. Other operating expenses	170,490	149,635
X. Operating profit (loss)	459,284	74,589
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of subordinated entities measured by the equity method	(21,512)	(7,594)
XIV. Profit (loss) before tax	437,772	66,995
XV. Income tax	94,633	30,134
a) current part	(61,716)	(37,586)
b) deferred part	156,349	67,720
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**343,139**	**36,861**

	1 January – 31 March 2017	1 January – 31 March 2016
Net profit (loss) (annualized) [1)]	1,391,619	148,254
Weighted average number of common shares	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [1)]	1.61	0.17
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [1)]	1.61	0.17

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

(in thousands of PLN)

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016
I. Equity at the beginning of the period (Opening Balance)	12,219,012	12,378,733	12,378,733
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after reconciliation with comparative data	12,219,012	12,378,733	12,378,733
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	4,889,182	4,446,348	4,446,348
2.1. Change in supplementary capital	12	442,834	90
a) increases (by virtue of):	12	442,834	90
- distribution of profit (above the statutorily required amount)	-	442,395	-
- from revaluation reserve – by sale and liquidation of fixed assets	12	439	90
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	4,889,194	4,889,182	4,446,438
3. Revaluation reserve at the beginning of the period	5,650,527	5,597,511	5,597,511
- changes in the accepted accounting principles (policy)	-	-	-
3.1. Change in the revaluation reserve	492,913	53,016	401,443
a) increases (by virtue of):	558,446	784,198	457,423
- valuation of financial investments	558,446	772,968	457,423
- transfer of the impairment charges on investments available for sale	-	1,142	-
- increases by virtue of the disposal of instruments available for sale	-	10,088	-
b) decreases (by virtue of)	65,533	731,182	55,980
- valuation of financial investments	65,521	128,219	55,890
- decreases by virtue of the disposal of instruments available for sale	-	602,512	
- sale of fixed assets	12	439	90
- other reductions, including recognition of impairment charges for real estate	-	12	-
3.2. Revaluation reserve at the end of the period	6,143,440	5,650,527	5,998,954

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	1,592,951	2,248,522	2,248,522
5.1. Retained earnings at the beginning of the period	1,592,951	2,248,522	2,248,522
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.2. Retained earnings at the beginning of the period, after reconciliation with comparative data	1,592,951	2,248,522	2,248,522
a) increases	-	-	-
b) decreases	-	2,248,522	-
- transfers to supplementary capital	-	442,395	-
- dividend payment	-	1,796,127	-
- transfers/charges to the Company Social Benefit Fund	-	10,000	-
5.3. Retained earnings at the end of the period	1,592,951	-	2,248,522
5.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after reconciliation with comparative data	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	-	-	-
5.7. Retained earnings (losses) at the end of the period	1,592,951	-	2,248,522
6. Net result	343,139	1,592,951	36,861
a) net profit	343,139	1,592,951	36,861
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	**13,055,076**	**12,219,012**	**12,817,127**

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016
A. Cash flow on operating activity			
I. Proceeds	3,515,743	11,457,632	2,833,899
1. Proceeds on direct activity and inward reinsurance	3,237,374	10,596,634	2,609,952
1.1. Proceeds on gross premiums	3,204,859	10,464,366	2,563,073
1.2. Proceeds on subrogation, salvage and claim refunds	27,663	106,806	35,303
1.3. Other proceeds on direct activity	4,852	25,462	11,576
2. Proceeds on outward reinsurance	76,850	202,449	41,153
2.1. Payments received from reinsurers for their share of claims paid	69,252	176,938	36,789
2.2. Proceeds on reinsurance commissions and profit-sharing	6,923	23,588	4,333
2.3. Other proceeds on outward reinsurance	675	1,923	31
3. Proceeds on other operating activity	201,519	658,549	182,794
3.1. Proceeds for acting as an emergency adjuster	88,227	260,448	76,975
3.2. Sale of intangible assets and property, plant and equipment other than investments	474	2,976	669
3.3. Other proceeds	112,818	395,125	105,150
II. Expenditures	2,968,050	10,735,148	2,618,898
1. Expenditures on direct activity and inward reinsurance	2,347,100	9,067,091	2,188,926
1.1. Gross premium refunds	49,825	167,887	38,162
1.2. Gross claims paid	1,379,209	5,544,953	1,338,352
1.3. Acquisition expenditures	395,799	1,353,987	343,616
1.4. Administrative expenditures	338,084	1,385,079	336,359
1.5. Expenditures for claims handling and pursuit of subrogation	63,338	248,028	62,772
1.6. Commissions paid and profit-sharing on inward reinsurance	84,860	236,211	38,390
1.7. Other expenditures on direct activity and inward reinsurance	35,985	130,946	31,275
2. Expenditures on outward reinsurance	113,888	300,481	82,039
2.1. Premiums paid for reinsurance	113,868	300,227	81,955
2.2. Other expenditures on outward reinsurance	20	254	84
3. Expenditures on other operating activity	507,062	1,367,576	347,933
3.1. Expenditures for acting as an emergency adjuster	144,428	510,018	143,250
3.2. Purchase of intangible assets and property, plant and equipment other than investments	26,050	117,167	35,227
3.3. Other operating expenditures	336,584	740,391	169,456
III. Net cash flow on operating activity (I-II)	**547,693**	**722,484**	**215,001**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016
B. Cash flow on investing activity			
I. Proceeds	63,485,194	239,677,792	52,888,789
1. Sale of real estate	1,350	53,784	3,499
2. Sale of ownership interests and shares in subordinated entities	-	180	180
3. Sale of ownership interests, shares in other entities and participation units and investment certificates in mutual funds	2,111	1,051,223	4,360
4. Realization of debt securities issued by subordinated entities and amortization of the loans granted to these entities	-	-	-
5. Realization of debt securities issued by other entities	16,006,623	9,804,544	2,736,208
6. Liquidation of term deposits in credit institutions	10,117,281	184,625,108	39,277,609
7. Realization of other investments	37,326,159	42,992,101	10,845,055
8. Proceeds from real estate	1,976	7,472	2,168
9. Interest received	23,784	284,925	15,635
10. Dividends received	3	844,176	-
11. Other investment proceeds	5,907	14,279	4,075
II. Expenditures	64,535,793	237,505,872	52,678,804
1. Purchase of real estate	-	-	-
2. Purchase of ownership interests and shares in subordinated entities	-	1,197,996	341,760
3. Purchase of ownership interests, shares in other entities and participation units and investment certificates in mutual funds	19,356	35,850	1,538
4. Purchase of debt securities issued by subordinated entities and extension of loans to these entities	-	150,000	-
5. Purchase of debt securities issued by other entities	17,694,832	8,786,060	1,946,831
6. Purchase of term deposits in credit institutions	9,353,282	184,138,646	39,587,083
7. Purchase of other investments	37,452,465	43,149,288	10,785,357
8. Expenditures for the maintenance of properties	14,173	46,722	15,959
9. Other expenditures for investments	1,685	1,310	276
III. Net cash flow on investing activity (I-II)	(1,050,599)	2,171,920	209,985

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2017	1 January – 31 December 2016	1 January – 31 March 2016
C. Cash flow on financing activity			
I. Proceeds	13,551,761	7,133,567	275,210
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans and borrowings and issues of debt securities	13,551,761	7,133,567	275,210
3. Other financial proceeds	-	-	-
II. Expenditures	13,552,044	8,977,917	275,225
1. Dividends	-	1,796,162	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Repurchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	13,552,044	7,134,630	275,225
5. Interest on loans and borrowings and issued debt securities	-	47,125	-
6. Other financial expenditures	-	-	-
III. Net cash flow on financing activity (I-II)	(283)	(1,844,350)	(15)
D. Total net cash flow (A.III+/-B.III+/-C.III)	(503,189)	1,050,054	424,971
E. Balance sheet change in cash, including:	(554,492)	1,082,955	416,167
- movement in cash due to foreign exchange differences	(51,303)	32,901	(8,804)
F. Cash at the beginning of the period	1,148,031	65,076	65,076
G. Cash at the end of the period (F+/-E), including:	593,539	1,148,031	481,243
- restricted cash	42,081	43,272	80,317

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2016.

9. Changes in accounting principles (policy)

In the 3-month period ended 31 March 2017, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

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

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

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

Warsaw, 17 May 2017