Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim consolidated financial statements for Q1 2018

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Introduction

Compliance statement

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

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

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. PZU, forms part of these condensed interim consolidated financial statements.

According to article 45 section 1a of the Accounting Act, the financial statements of issuers of securities admitted to trading on one of the regulated markets of the European Economic Area countries may be prepared in accordance with IFRS.

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2018.

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

Functional and presentation currency

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

The functional currency of the companies domiciled in Lithuania, Latvia and Sweden is the euro, of those domiciled in Ukraine is the Ukrainian hryvnia and of that domiciled in the United Kingdom is the British pound.

(in millions of PLN)

FX rates

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

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

Currency	1 January – 31 March 2018	1 January – 31 December 2017	1 January – 31 March 2017	31 March 2018	31 December 2017	31 March 2017
Euro	4.1784	4.2447	4.2891	4.2085	4.1709	4.2198
British pound	4.7511	4.7694	n/a	4.7974	4.7001	n/a
Ukrainian hryvnia	0.1257	0.1402	0.1484	0.1298	0.1236	0.1460

Going concern assumption

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

Discontinued operations

In the 3-month period ended 31 March 2018, 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

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

EMC – EMC Instytut Medyczny SA.

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

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

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

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

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

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji SA.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

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

Other definitions

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

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

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

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

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 31 March 2018.

NBP – National Bank of Poland;

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

PAS – Accounting Act and regulations issued thereunder.

IASB – International Accounting Standards Board.

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

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

KNF Office – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated text: Journal of Laws of 2017, item 1170, as amended).

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

ZUS – Social Insurance Institution.

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 31 March 2018	m PLN 1 January – 31 March 2017	m EUR 1 January – 31 March 2018	m EUR 1 January – 31 March 2017
Gross written premiums	5,831	5,768	1,396	1,345
Net earned premium	5,458	5,072	1,306	1,183
Revenue from commissions and fees	830	251	199	59
Net investment result	2,474	1,679	592	391
Net insurance claims and benefits	(3,626)	(3,710)	(868)	(865)
Profit before tax	1,399	1,259	335	294
Profit attributable to equity holders of the Parent Company	640	940	153	219
Profit attributable to holders of non-controlling interests	403	67	96	16
Basic and diluted weighted average number of common shares	863,511,199	863,512,144	863,511,199	863,512,144
Basic and diluted earnings per common share (in PLN/EUR)	0.74	1.09	0.18	0.25

Data from the consolidated statement of financial position	m PLN 31 March 2018	m PLN 31 December 2017	m PLN 31 March 2017	m EUR 31 March 2018	m EUR 31 December 2017	m EUR 31 March 2017
Assets	318,199	317,405	126,684	75,609	76,100	30,021
Share capital	86	86	86	20	21	20
Equity attributable to equity holders of the parent	14,877	14,622	13,929	3,535	3,506	3,301
Non-controlling interest	22,753	22,979	4,185	5,406	5,509	992
Total equity	37,630	37,601	18,114	8,941	9,015	4,293
Basic and diluted number of common shares	863,490,158	863,522,900	863,520,900	863,490,158	863,522,900	863,520,900
Carrying amount per common share (in PLN/EUR)	17.23	16.93	16.13	4.09	4.06	3.82

(in millions of PLN)

Data from the consolidated cash flow statement	m PLN 1 January – 31 March 2018	m PLN 1 January – 31 March 2017	m EUR 1 January – 31 March 2018	m EUR 1 January – 31 March 2017
Net cash flows from operating activities	(4,693)	(1,741)	(1,123)	(406)
Net cash flows from investing activities	5,929	1,954	1,419	456
Net cash flows from financing activities	2,193	17	525	4
Total net cash flows	3,429	230	821	54

2. Selected individual financial data of PZU (PAS)

Data from the balance sheet	m PLN 31 March 2018	m PLN 31 December 2017	m PLN 31 March 2017	m EUR 31 March 2018	m EUR 31 December 2017	m EUR 31 March 2017
Assets	43,918	42,388	39,179	10,436	10,163	9,285
Share capital	86	86	86	20	21	20
Total equity	13,891	13,583	13,055	3,301	3,257	3,094
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000	863,523,000
Carrying amount per common share (in PLN/EUR)	16.09	15.73	15.12	3.82	3.77	3.58

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 31 March 2018	m PLN 1 January – 31 March 2017	m EUR 1 January – 31 March 2018	m EUR 1 January – 31 March 2017
Gross written premiums	3,769	3,696	902	862
Technical result of non-life insurance	395	397	95	93
Net investment result [1)]	125	37	30	9
Net profit	258	343	62	80
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	0.30	0.40	0.07	0.09

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

(in millions of PLN)

3. Selected non-consolidated financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna (PAS)

Data from the balance sheet	**m PLN 31 March 2018**	**m PLN 31 December 2017**	**m PLN 31 March 2017**	**m EUR 31 March 2018**	**m EUR 31 December 2017**	**m EUR 31 March 2017**
Assets	28,653	28,320	28,454	6,808	6,790	6,743
Total equity	4,788	4,657	5,208	1,138	1,117	1,234

Data from the technical life insurance account and the general profit and loss account	**m PLN 1 January – 31 March 2018**	**m PLN 1 January – 31 March 2017**	**m EUR 1 January – 31 March 2018**	**m EUR 1 January – 31 March 2017**
Gross written premiums	2,079	2,135	498	498
Technical life insurance result	353	295	84	69
Net investment result	166	435	40	101
Net profit	269	221	64	52

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the 3-month period ended 31 March 2018 was PLN 1,043 million and was 3.6% higher from the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 640 million, compared to PLN 940 million in 2017 (down 31.9%).

The net result rose 16.9% compared to last year, net of non-recurring events[1].

ROE attributable to the parent company for the period from 1 January to 31 March 2018 was 17.6%, down 10.3 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity after the 3-month period ended 31 March 2018, as compared to the corresponding period of the previous year:

- higher gross written premium in motor insurance in the mass and corporate segments as a result of the upswing in average premium and in foreign companies, in particular in the motor insurance group;
- higher profitability of the mass and corporate non-motor insurance segment driven mainly by the improved profitability of the portfolio of natural catastrophe insurance and insurance against other material losses;
- lower profitability in the mass insurance segment as a result of remeasurement of provisions for claims for general damages due to pain caused by the vegetative state of a relative injured in an accident in the total amount of PLN 148 million, which is the best estimate at the time of preparation of the financial statements for Q1 2018 (absence of certainty as to market practice or the percentage of disability of the injured affecting the expected value of claims);
- increased profitability in group and individually continued insurance as a result of a continuous growth of the insurance portfolio and an improvement in the loss ratio of protection products compared to last year – lower incidence of deaths;
- better performance in the banking segment at Alior Bank in connection with the high sales level of credit products supported by good business climate and a low interest rate environment;
- lower result on listed equities, in particular due to the deteriorated market conditions on the Warsaw Stock Exchange.

The inclusion of Pekao into the PZU Group's structures in June 2017 materially affected the comparability of the results and the total balance sheet value. The total balance sheet value jumped on this account by roughly PLN 191 billion compared to the previous year, while non-controlling interests totaled PLN 22.8 billion (as at 31 March 2018). In Q1 2018, Pekao contributed PLN 563 million to the banking segment's operating result.

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

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	**Note**	**1 January – 31 March 2018**	**1 January – 31 March 2017** (restated) [1]
Gross written premiums	8.1	5,831	5,768
Reinsurers' share in gross written premium		(51)	(93)
Net written premiums		**5,780**	**5,675**
Movement in net provision for unearned premiums		(322)	(603)
Net earned premium		**5,458**	**5,072**
Revenue from commissions and fees	8.2	830	251
Net investment income	8.3	2,893	1,366
Net result on realization of financial instruments and investments	8.4	65	10
Movement in allowances for expected credit losses and impairment losses on financial instruments	8.5	(421)	(223)
Net movement in fair value of assets and liabilities measured at fair value	8.6	(63)	526
Other operating income	8.7	495	279
Claims, benefits and movement in technical provisions		(3,731)	(3,792)
Reinsurers' share in claims, benefits and movement in technical provisions		105	82
Net insurance claims and benefits	**8.8**	**(3,626)**	**(3,710)**
Fee and commission expenses	8.9	(171)	(77)
Interest expenses	8.10	(499)	(172)
Acquisition expenses	8.11	(751)	(694)
Administrative expenses	8.11	(1,615)	(865)
Other operating expenses	8.12	(1,196)	(504)
Operating profit		**1,399**	**1,259**
Share of the net financial results of entities measured by the equity method		-	-
Profit before tax		**1,399**	**1,259**
Income tax	8.14	(356)	(252)
Net profit, including:		**1,043**	**1,007**
- profit attributable to the equity holders of the Parent Company		640	940
- profit (loss) attributed to holders of non-controlling interest		403	67
Weighted average basic and diluted number of common shares	8.13	863,511,199	863,512,144
Basic and diluted profit (loss) per common share (in PLN)	8.13	0.74	1.09

[1] Information on restatement of data for the period from 1 January to 31 March 2017 is presented in section 4.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2018	1 January – 31 March 2017
Net profit		1,043	1,007
Other comprehensive income	8.14	65	7
Subject to subsequent transfer to profit or loss		157	7
Debt instruments measured at fair value through other comprehensive income		138	n/a
Measurement of financial instruments available for sale		n/a	56
Foreign exchange translation differences		11	(54)
Cash flow hedging		8	5
Not to be reclassified to profit or loss in the future		(92)	-
Equity instruments measured at fair value through other comprehensive income		(95)	n/a
Reclassification of real property from property, plant and equipment to investment property		3	-
Total net comprehensive income		**1,108**	**1,014**
- comprehensive income attributable to equity holders of the Parent Company		602	928
- comprehensive income attributed to holders of non-controlling interest		506	86

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	31 March 2018	31 December 2017 (restated) [1)]	31 March 2017 (restated) [1)]	1 January 2017 (restated) [1)]
Goodwill	8.15	3,854	3,839	1,559	1,583
Intangible assets	8.16	3,319	3,443	1,439	1,463
Other assets	8.17	677	692	813	866
Deferred acquisition expenses		1,526	1,485	1,457	1,407
Reinsurers' share in technical provisions	8.27	1,200	1,250	1,003	990
Property, plant and equipment	8.18	3,137	3,239	1,434	1,467
Investment property		2,389	2,354	1,745	1,738
Entities measured by the equity method		20	20	37	37
Loan receivables from clients	8.19	170,473	169,457	46,918	44,998
Financial derivatives	8.20	2,116	2,351	963	953
Investment financial assets		108,416	110,046	57,914	59,335
Measured at amortized cost	8.21.1	44,218	n/a	n/a	n/a
Measured at fair value through other comprehensive income	8.21.2	43,047	n/a	n/a	n/a
Measured at fair value through profit or loss	8.21.3	21,151	n/a	n/a	n/a
Held to maturity	8.21.4	n/a	21,237	19,272	17,346
Available for sale	8.21.5	n/a	48,519	8,967	11,652
Measured at fair value through profit or loss	8.21.6	n/a	20,243	21,319	21,001
Loans	8.21.7	n/a	20,047	8,356	9,336
Deferred tax assets		1,826	1,577	680	633
Receivables	8.23	7,273	9,096	6,296	5,664
Cash and cash equivalents		11,675	8,239	3,140	2,973
Assets held for sale	8.24	298	317	1,286	1,189
Total assets		**318,199**	**317,405**	**126,684**	**125,296**

[1)] Information on restatement of data as at 31 March 2017 and 1 January 2017 is presented in section 4.2.

(in millions of PLN)

Interim consolidated statement of financial position (cont'd)

Equity and liabilities	Note	31 March 2018	31 December 2017 (restated) [1)]	31 March 2017 (restated) [1)]	1 January 2017 (restated) [1)]
Equity					
Equity attributable to equity holders of the parent		14,877	14,622	13,929	12,998
Share capital	8.26	86	86	86	86
Other capital		11,884	11,917	10,860	10,869
Retained earnings		2,907	2,619	2,983	2,043
Retained earnings		2,267	(291)	2,043	108
Net profit		640	2,910	940	1,935
Non-controlling interest		22,753	22,979	4,185	4,086
Total equity		**37,630**	**37,601**	**18,114**	**17,084**
Liabilities					
Technical provisions	8.27	44,940	44,558	43,010	42,194
Provisions for employee benefits		570	556	138	128
Other provisions	8.28	605	497	349	367
Deferred tax liability		704	638	752	469
Financial liabilities	8.29	224,373	224,507	59,074	60,030
Other liabilities	8.32	9,374	9,045	5,204	4,991
Liabilities related directly to assets classified as held for sale	8.24	3	3	43	33
Total liabilities		**280,569**	**279,804**	**108,570**	**108,212**
Total equity and liabilities		**318,199**	**317,405**	**126,684**	**125,296**

[1)] Information on restatement of data as at 31 March 2017 and 1 January 2017 is presented in section 4.2.

(in millions of PLN)

4. Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	**Equity attributable to equity holders of the parent**										**Non-controlling interest**	**Total equity**
	Share capital	**Other capital**						**Retained earnings**		**Total**		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2018	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,619**	**-**	**14,622**	**22,979**	**37,601**
Effect of the application of IFRS 9 and other changes	-	-	-	7	-	-	-	(349)	-	(342)	(739)	(1,081)
As at 1 January after the changes in accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,270**	**-**	**14,280**	**22,240**	**36,520**
Equity instruments measured at fair value through other comprehensive income	-	-	-	(92)	-	-	-	-	-	(92)	(3)	(95)
Debt instruments measured at fair value through other comprehensive income	-	-	-	36	-	-	-	-	-	36	102	138
Cash flow hedging	-	-	-	4	-	-	-	-	-	4	4	8
Foreign exchange translation differences	-	-	-	-	-	-	11	-	-	11	-	11
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(49)**	**-**	**-**	**11**	**-**	**-**	**(38)**	**103**	**65**
Net profit (loss)	-	-	-	-	-	-	-	-	640	640	403	1,043
Total comprehensive income	**-**	**-**	**-**	**(49)**	**-**	**-**	**11**	**-**	**640**	**602**	**506**	**1,108**
Other changes, including:	**-**	**(1)**	**(1)**	**(1)**	**1**	**-**	**-**	**(3)**	**-**	**(5)**	**7**	**2**
Distribution of financial result	-	-	2	-	1	-	-	(3)	-	-	-	-
Transactions on treasury shares	-	(1)	-	-	-	-	-	-	-	(1)	-	(1)
Transactions with holders of non-controlling interests	-	-	(4)	-	-	-	-	-	-	(4)	7	3
Sale of revalued real estate	-	-	1	(1)	-	-	-	-	-	-	-	-
As at 31 March 2018	**86**	**(1)**	**11,823**	**114**	**6**	**4**	**(62)**	**2,267**	**640**	**14,877**	**22,753**	**37,630**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Measurement of financial instruments available for sale	-	-	-	53	-	-	-	-	-	53	64	117
Cash flow hedging	-	-	-	2	-	-	-	-	-	2	9	11
Foreign exchange translation differences	-	-	-	-	-	-	(71)	-	-	(71)	-	(71)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	1	-	-	-	1	6	7
Reclassification of real property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**-**	**(13)**	**79**	**66**
Net profit (loss)	-	-	-	-	-	-	-	-	2,910	2,910	1,323	4,233
Total comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**2,910**	**2,897**	**1,402**	**4,299**
Other changes, including:	**-**	**1**	**1,066**	**(6)**	**-**	**-**	**-**	**(2,334)**	**-**	**(1,273)**	**17,491**	**16,218**
Distribution of financial result	-	-	1,125	-	-	-	-	(2,334)	-	(1,209)	-	(1,209)
Acquisition of shares in Pekao	-	-	-	-	-	-	-	-	-	-	17,677	17,677
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(65)	-	-	-	-	-	-	(65)	(186)	(251)
Sale of revalued real estate	-	-	6	(6)	-	-	-	-	-	-	-	-
As at 31 December 2017	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**(291)**	**2,910**	**14,622**	**22,979**	**37,601**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Measurement of financial instruments available for sale	-	-	-	40	-	-	-	-	-	40	16	56
Cash flow hedging transactions	-	-	-	2	-	-	-	-	-	2	3	5
Foreign exchange translation differences	-	-	-	-	-	-	(54)	-	-	(54)	-	(54)
Total net other 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 shares	-	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)**	**2,043**	**940**	**13,929**	**4,185**	**18,114**

[1] Information on restatement of data for the period from 1 January to 31 March 2017 is presented in section 4.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 31 March 2018	1 January – 31 March 2017
Profit before tax	1,399	1,259
Adjustments	(6,092)	(3,000)
Movement in loan receivables from clients	(2,394)	(1,920)
Movement in liabilities under deposits	(2,197)	(843)
Movement in the valuation of assets measured at fair value	63	(584)
Interest income and expenses	(618)	(300)
Realized gains/losses from investing activities and impairment losses	421	213
Net foreign exchange differences	(130)	(144)
Movement in deferred acquisition expenses	(41)	(50)
Amortization of intangible assets and depreciation of property, plant and equipment	267	127
Movement in the reinsurers' share in technical provisions	50	(13)
Movement in technical provisions	382	816
Movement in receivables	(26)	(522)
Movement in liabilities	(108)	412
Cash flow on investment contracts	(4)	(31)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(46)	(83)
Income tax paid	(301)	(269)
Other adjustments	(1,410)	191
Net cash flows from operating activities	**(4,693)**	**(1,741)**
Cash flow from investing activities		
Proceeds	251,364	237,100
- sale of investment property	5	2
- proceeds from investment property	79	76
- sale of intangible assets and property, plant and equipment	47	21
- sale of ownership interests and shares	987	1,076
- realization of debt securities	74,992	46,973
- closing of buy-sell-back transactions	111,717	89,395
- closing of term deposits with credit institutions	49,890	56,793
- realization of other investments	13,471	42,592
- interest received	163	147
- dividends received	2	1
- increase in cash due to purchase of entities and change in the scope of consolidation	-	22
- other investment proceeds	11	2

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 31 March 2018	1 January – 31 March 2017
Expenditures	**(245,435)**	(235,146)
- purchase of investment properties	(13)	(12)
- expenditures for the maintenance of investment property	(30)	(48)
- purchase of intangible assets and property, plant and equipment	(144)	(122)
- purchase of ownership interests and shares	(951)	(537)
- purchase of ownership interests and shares in subsidiaries	(13)	-
- decrease in cash due to the sale of entities and change in the scope of consolidation	-	(6)
- purchase of debt securities	(67,178)	(46,179)
- opening of buy-sell-back transactions	(113,580)	(87,905)
- purchase of term deposits with credit institutions	(53,729)	(56,069)
- purchase of other investments	(9,792)	(44,265)
- other expenditures for investments	(5)	(3)
Net cash flows from investing activities	**5,929**	**1,954**
Cash flows from financing activities		
Proceeds	61,317	67,004
- proceeds from loans and borrowings	535	-
- proceeds on the issue of own debt securities	1,227	-
- opening of repurchase transactions	59,555	67,004
Expenditures	(59,124)	(66,987)
- repayment of loans and borrowings	(345)	(5)
- redemption of own debt securities	(513)	-
- closing of repurchase transactions	(58,199)	(66,969)
- interest on loans and borrowings	(50)	(1)
- interest on outstanding debt securities	(17)	(12)
Net cash flows from financing activities	**2,193**	**17**
Total net cash flows	**3,429**	**230**
Cash and cash equivalents at the beginning of the period	8,239	2,973
Movement in cash due to foreign exchange differences	7	(63)
Cash and cash equivalents at the end of the period, including:	11,675	3,140
- restricted cash	78	20

[1)] Information on restatement of the 2016 data is presented in section 4.2.

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

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

(in millions of PLN)

1.2 PZU Group entities and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2018	31 December 2017	
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	1991/12/18	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	2014/09/15	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	2015/11/20	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	2014/10/31	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	2014/06/30	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	2005/07/01	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	2005/07/01	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	2002/04/26	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	2017/06/07	20.00%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	2017/06/07	20.00%	20.02%	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	2017/06/07	20.00%	20.02%	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	2017/06/07	20.00%	20.02%	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	2017/06/07	20.00%	20.02%	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	2017/06/07	20.00%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA (formerly Pekao Pioneer Powszechne Towarzystwo Emerytalne SA)	Warsaw	2017/06/07	20.00%	20.02%	Management of pension funds. https://www.pekaopte.pl/
17	Pekao TFI SA (formerly Pioneer Pekao TFI SA)	Warsaw	2017/12/11 2017/06/07 [1)]	20.00%	20.02%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
18	Centrum Kart SA	Warsaw	2017/06/07	20.00%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2018	31 December 2017	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	2017/06/07	20.00%	20.02%	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	2017/06/07	20.00%	20.02%	Call-center services. http://www.cbb.pl/
21	Pekao Property SA	Warsaw	2017/06/07	20.00%	20.02%	Development activity.
22	FPB – Media sp. z o.o.	Warsaw	2017/06/07	20.00%	20.02%	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	2017/06/07	20.00%	20.02%	Business consulting
24	Pekao Investment Management SA (formerly Pioneer Pekao Investment Management SA)	Warsaw	2017/06/07 2017/12/11 [1)]	20.00%	20.02%	Asset management. https://www.pekaotfi.pl/tfi/welcome
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	2017/06/07 2017/12/11 [2)]	20.00%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	2015/12/18	32.23%	32.23%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	2015/12/18	32.23%	32.23%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation	Krakow	2015/12/18	32.23%	32.23%	Trading in receivables.
29	Alior Leasing sp. z o.o.	Wroclaw	2015/12/18	32.23%	32.23%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	2015/12/18	32.23%	32.23%	IT services.
31	Money Makers TFI SA [3)]	Warsaw	2015/12/18	29.48%	19.39%	Asset management services and management of Alior SFIO subfunds. http://www.moneymakers.pl
32	New Commerce Services sp. z o.o.	Warsaw	2015/12/18	32.23%	32.23%	The company does not conduct any activity
33	Absource sp. z o.o.	Krakow	2016/05/04	32.23%	32.23%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	2017/01/30	32.23%	32.23%	Brokerage activity.
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA	Warsaw	2011/09/02	100.00%	100.00%	Medical services. https://www.pzu.pl/grupa-pzu/pzu-zdrowie-sa
36	Centrum Medyczne Medica sp. z o.o.	Płock	2014/05/09	100.00%	100.00%	Medical services. http://cmmedica.pl/
37	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	2014/05/12	100.00%	100.00%	Medical services. http://cmprofmed.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	2014/05/09	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2018	31 December 2017	
Consolidated companies – PZU Zdrowie Group – continued						
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	2014/12/01	100.00%	100.00%	Medical services. http://www.elvita.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	2014/12/01	57.00%	57.00%	Medical services. http://www.proelmed.pl/
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	2015/09/08	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	2016/11/30	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
43	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	2016/12/21	100.00%	100.00%	Medical services. http://artimed.pl/
44	Revimed sp. z o.o.	Gdańsk	2017/05/31	100.00%	100.00%	Medical services. http://www.revimed.pl/
45	Niepubliczny Zakład Opieki Zdrowotnej Trzebinia sp. z o.o.	Trzebinia	2017/06/30	100.00%	99.75%	Medical services. http://www.nzoz.trzebinia.com/
46	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	2018/01/09	100.00%	n/a	Medical services. http://www.cmlukasza.pl/
Consolidated companies – other companies						
47	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	1998/12/08	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
48	PZU Centrum Operacji SA	Warsaw	2001/11/30	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
49	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	1999/04/30	100.00%	100.00%	Creation, representing and management of mutual funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
50	PZU Pomoc SA	Warsaw	2009/03/18	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
51	PZU Finance AB (publ.)	Stockholm (Sweden)	2014/06/02	100.00%	100.00%	Financial services. https://www.pzu.pl/grupa-pzu/pzu-finance-ab
52	PZU Finanse Sp. z o.o.	Warsaw	2013/11/08	100.00%	100.00%	Financial and accounting services.
53	Tower Inwestycje Sp. z o.o.	Warsaw	1998/08/27	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/grupa-pzu/tower-inwestycje
54	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	2004/09/15	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
55	Arm Property sp. z o.o.	Krakow	2014/11/26	100.00%	100.00%	Purchase and sale of real estate.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2018	31 December 2017	
Consolidated companies – other companies – continued						
56	Ipsilon sp. z o.o.	Warsaw	2009/04/02	100.00%	100.00%	Provision of assistance services and medical services.
57	PZU Corporate Member Limited	London (UK)	2017/09/28	100.00%	100.00%	Investment activity.
58	Ardea Alba SA in liquidation (formerly PZU Asset Management SA) [4)]	Warsaw	2001/07/12	100.00%	100.00%	No business conducted.
59	PZU LAB SA (formerly Omicron SA)	Warsaw	2011/09/13	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/lab
60	Omicron BIS SA	Warsaw	2014/08/28	100.00%	100.00%	No business conducted.
61	Sigma BIS SA	Warsaw	2014/12/12	100.00%	100.00%	No business conducted.
62	LLC SOS Services Ukraine	Kiev (Ukraine)	2005/07/01	100.00%	100.00%	Assistance services.
63	Battersby Investments SA	Warsaw	2017/09/15	100.00%	100.00%	No business conducted.
64	Tulare Investments sp. z o.o.	Warsaw	2017/09/15	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
65	Armatura Kraków SA	Krakow	1999/10/07	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
66	Aquaform SA	Środa Wlkp.	2015/01/15	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
67	Aquaform Badprodukte GmbH	Anhausen (Germany)	2015/01/15	100.00%	100.00%	Wholesale trade.
68	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	2015/01/15	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
69	Aquaform Romania SRL	Prejmer (Romania)	2015/01/15	100.00%	100.00%	Wholesale trade.
70	Morehome.pl sp. z o.o.	Środa Wlkp.	2015/01/15	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
71	PZU SFIO Universum	Warsaw	2009/12/15	n/a	n/a	Investment of funds collected from fund members.
72	PZU FIZ Dynamiczny	Warsaw	2010/01/27	n/a	n/a	as above
73	PZU FIZ Sektora Nieruchomości [5)]	Warsaw	2008/07/01	n/a	n/a	as above
74	PZU FIZ Sektora Nieruchomości 2 [5)]	Warsaw	2011/11/21	n/a	n/a	as above
75	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	2012/12/12	n/a	n/a	as above
76	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	2012/11/19	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2018	31 December 2017	
Consolidated companies – mutual funds – continued						
77	PZU FIZ Surowcowy	Warsaw	2015/09/03	n/a	n/a	as above
78	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	2016/05/30	n/a	n/a	as above
79	PZU FIZ Forte	Warsaw	2016/07/01	n/a	n/a	as above
80	PZU Telekomunikacja Media Technologia	Warsaw	2016/09/07	n/a	n/a	as above
81	PZU Dłużny Aktywny	Warsaw	2016/10/26	n/a	n/a	as above
82	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	2016/11/30	n/a	n/a	as above
83	PZU FIZ Akcji Combo	Warsaw	2017/03/09	n/a	n/a	as above
84	PZU Akcji Spółek Dywidendowych	Warsaw	2017/12/31	n/a	n/a	as above
Associates						
85	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	1999/06/08	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
86	EMC Instytut Medyczny SA	Wroclaw	2013/06/18	28.31% [6]	28.31% [6]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
87	CPF Management	Tortola, British Virgin Islands	2017/06/07	8.00% [7]	8.01% [7]	Consulting and business activity – no business conducted.

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

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

[3] Direct subsidiary of Alior Bank, in which Alior Bank holds a 91.48% stake (as at 31 December 2017: 60.16%). As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.

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

[5] As at 31 March 2018, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles whose number in the respective funds was: 15 and 20 (as at 31 December 2017: 15 and 20, respectively).

[6] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 31 March 2018 and as at 31 December 2017 it was 25.44%. The difference between the percentage of votes and the stake in the share capital results from the fact that holders of non-controlling interests hold certain shares preferred as to the voting rights.

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

As at 31 March 2018, besides the companies listed in the table the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

(in millions of PLN)

1.3 Non-controlling interest

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

Name of the entity	31 March 2018	31 December 2017	31 March 2017
Pekao [1)]	80.00%	79.98%	n/a
Alior Bank [2)]	67.77%	67.77%	70.78%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%	39.54%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	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%
NZOZ Trzebinia	0.00%	0.25%	n/a

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

Carrying amount of non-controlling interests	31 March 2018	31 December 2017	31 March 2017 (restated)
Pekao Group	18,612	18,605	n/a
Alior Bank Group	4,137	4,368	4,180 [1)]
Other	4	6	5
Total	**22,753**	**22,979**	**4,185**

[1)] Restatement of data as at 31 March 2017 resulted from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this issue is presented in the PZU Group's consolidated financial statements for 2017.

(in millions of PLN)

Presented below is condensed financial information for the Pekao Group and the Alior Bank Group included in the condensed interim consolidated financial statements. Restatement of data as at 31 March 2017 resulted from the final settlement of the purchase of Bank BPH's Core Business. Detailed information on this issue is presented in the PZU Group's consolidated financial statements for 2017.

Assets	Pekao Group [1)]		Alior Bank Group		
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2017 (restated)
Goodwill	692	692	-	-	-
Intangible assets	1,936	2,032	650	662	671
Other assets	137	95	50	36	85
Property, plant and equipment	1,647	1,683	452	476	484
Investment property	21	22	-	-	-
Loan receivables from clients	119,135	118,660	51,338	50,797	46,918
Financial derivatives	1,340	1,608	536	454	414
Investment financial assets	47,096	52,555	13,970	14,020	8,094
Measured at amortized cost	14,573	n/a	4,860	n/a	n/a
Measured at fair value through other comprehensive income	31,130	n/a	8,931	n/a	n/a
Measured at fair value through profit or loss	1,393	n/a	179	n/a	n/a
Held to maturity	n/a	3,500	n/a	1,339	221
Available for sale	n/a	33,593	n/a	12,259	6,806
Measured at fair value through profit or loss	n/a	1,731	n/a	87	34
Loans	n/a	13,731	n/a	335	1,033
Deferred tax assets	966	924	835	619	635
Receivables	2,092	2,017	711	785	734
Cash and cash equivalents	8,021	5,282	1,944	1,338	1,990
Assets held for sale	48	64	-	-	-
Total assets	**183,131**	**185,634**	**70,486**	**69,187**	**60,025**

(in millions of PLN)

Equity and liabilities	Pekao Group [1]		Alior Bank Group		
	31 March 2018	31 December 2017	31 March 2018	31 December 2017	31 March 2017 (restated)
Equity					
Equity attributable to equity holders of the parent	23,265	23,263	6,103	6,445	5,906
Share capital	262	262	1,293	1,293	1,293
Other capital	20,667	20,562	5,097	5,019	4,325
Retained earnings	2,336	2,439	(286)	133	288
Non-controlling interest	-	-	-	1	1
Total equity	**23,265**	**23,263**	**6,104**	**6,446**	**5,907**
Liabilities					
Provisions for employee benefits	422	425	46	43	38
Other provisions	335	305	162	77	258
Deferred tax liability	33	38	-	-	-
Financial liabilities	155,130	157,903	62,615	60,863	52,521
Other liabilities	3,946	3,700	1,559	1,758	1,301
Total liabilities	**159,866**	**162,371**	**64,382**	**62,741**	**54,118**
Total equity and liabilities	**183,131**	**185,634**	**70,486**	**69,187**	**60,025**

[1] Since control over Pekao was obtained on 7 June 2017, no data are presented for the comparative period (31 March 2017).

(in millions of PLN)

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

Consolidated profit and loss account for the period from 1 January to 31 March 2018	PZU Group	Exclusion of Pekao data	Exclusion of Alior Bank data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	5,831	-	-	-	5,831
Reinsurers' share in gross written premium	(51)	-	-	-	(51)
Net written premiums	**5,780**	**-**	**-**	**-**	**5,780**
Movement in net provision for unearned premiums	(322)	-	-	-	(322)
Net earned premium	**5,458**	**-**	**-**	**-**	**5,458**
Revenue from commissions and fees	830	(573)	(204)	4	57
Net investment income	2,893	(1,606)	(978)	4	313
Net result on realization of financial instruments and investments	65	(33)	(15)	-	17
Movement in allowances for expected credit losses and impairment losses on financial instruments	(421)	133	262	-	(26)
Net movement in fair value of assets and liabilities measured at fair value	(63)	(12)	(41)	-	(116)
Other operating income	495	(143)	(152)	-	200
Claims, benefits and movement in technical provisions	(3,731)	-	-	-	(3,731)
Reinsurers' share in claims, benefits and movement in technical provisions	105	-	-	-	105
Net insurance claims and benefits	**(3,626)**	**-**	**-**	**-**	**(3,626)**
Fee and commission expenses	(171)	90	80	-	(1)
Interest expenses	(499)	273	192	(4)	(38)
Acquisition expenses	(751)	-	-	(4)	(755)
Administrative expenses	(1,615)	831	405	-	(379)
Other operating expenses	(1,196)	519	219	-	(458)
Operating profit (loss)	**1,399**	**(521)**	**(232)**	**-**	**646**
Share of the net financial results of entities measured by the equity method	-	-	-	-	-
Profit (loss) before tax	**1,399**	**(521)**	**(232)**	**-**	**646**
Income tax	(356)	163	60	-	(133)
Net profit (loss)	**1,043**	**(358)**	**(172)**	**-**	**513**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 31 March 2017 [1)] (restated)	**PZU Group**	**Exclusion of Alior Bank data**	**Elimination of consolidation adjustments**	**Group without Alior Bank**
Gross written premiums	5,768	-	3	5,771
Reinsurers' share in gross written premium	(93)	-	-	(93)
Net written premiums	**5,675**	**-**	**3**	**5,678**
Movement in net provision for unearned premiums	(603)	-	-	(603)
Net earned premium	**5,072**	**-**	**3**	**5,075**
Revenue from commissions and fees	251	(199)	-	52
Net investment income	1,366	(975)	3	394
Net result on realization of financial instruments and investments	10	-	-	10
Movement in allowances for expected credit losses and impairment losses on financial instruments	(223)	209	-	(14)
Net movement in fair value of assets and liabilities measured at fair value	526	63	-	589
Other operating income	279	(36)	-	243
Claims, benefits and movement in technical provisions	(3,792)	-	-	(3,792)
Reinsurers' share in claims, benefits and movement in technical provisions	82	-	-	82
Net insurance claims and benefits	**(3,710)**	**-**	**-**	**(3,710)**
Fee and commission expenses	(77)	74	-	(3)
Interest expenses	(172)	156	(3)	(19)
Acquisition expenses	(694)	-	-	(694)
Administrative expenses	(865)	468	(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)] Since control over Pekao was obtained on 7 June 2017, no data are presented for the period from 1 January to 31 March 2017.

Statement of comprehensive income	**Pekao Group [1)]**	**Alior Bank Group**	
	1 January – 31 March 2018	**1 January – 31 March 2018**	**1 January – 31 March 2017**
Net profit	358	172	96
Other comprehensive income	74	65	27
Debt instruments measured at fair value through other comprehensive income	85	51	n/a
Equity instruments measured at fair value through other comprehensive income	(4)	-	n/a
Measurement of financial instruments available for sale	n/a	n/a	23
Net cash flow hedges	(7)	15	4
Foreign exchange differences	-	(1)	-
Total net comprehensive income	**432**	**237**	**123**

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

(in millions of PLN)

Cash flow statement	Pekao Group [1]	Alior Bank Group	
	1 January – 31 March 2018	1 January – 31 March 2018	1 January – 31 March 2017
Net cash flows from operating activities	(4,475)	556	478
Net cash flows from investing activities	7,665	(16)	(58)
Net cash flows from financing activities	898	(18)	(14)
Total net cash flows	**4,088**	**522**	**406**

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

Neither Pekao nor Alior Bank paid out any dividends in the period from 1 January to 31 March 2018 or from 1 January to 31 March 2017.

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

Centrum Medyczne św. Łukasza sp. z o.o.

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

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

2. Shareholder structure

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

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

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

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

In the period from 1 January 2018 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 2017 (i.e. 15 March 2018) 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 PZU Group Directors

3.1 Composition of the parent company's Management Board

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

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

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

3.2 Composition of the parent company's Supervisory Board

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

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

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

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

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

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

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

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

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

(in millions of PLN)

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

3.3 PZU Group Directors

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

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

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

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

4. Key accounting policies, key estimates and judgments

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

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

4.1.1. Amendments to the applied IFRS

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

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

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
IFRS 9 – Financial Instruments	1 January 2018	2067/2016	The effect of the application of IFRS 9 is described in section 4.1.2.
Amendment to IFRS 4 – Application of IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts'	1 January 2018	1988/2017	In accordance with the amendment to IFRS 4 issued by the International Accounting Standards Board on 12 September 2016, insurance companies may defer the implementation of IFRS 9 until the entry into force of IFRS 4 Phase II concerning insurance contracts, but by no later than 1 January 2021, however the PZU Group may not take advantage of this exemption due to the significant share of banking activity. The Commission of the European Union has also allowed financial conglomerates to defer application of IFRS 9 by insurance entities in the conglomerates, provided that no financial instruments are transferred between insurance and banking entities within the conglomerates. The report includes information on insurance companies that continue to apply IAS 39 and the disclosures required under IFRS 7 are provided separately for the insurance entities applying IAS 39 and for other entities applying IFRS 9. The PZU Group has decided not to take advantage of the possibility referred to in the regulation.

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
IFRS 15 – Revenue from Contracts with Customers	1 January 2018	1905/2016	IFRS 15 specifies how and when to recognize revenues and requires the presentation of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of interpretations related to revenue recognition. The standard applies to almost all agreements with customers (the main exceptions concern lease agreements, financial instruments and insurance agreements). The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of goods or services to customers and in an amount that reflects the value of consideration (i.e. the payment) which the company expects to obtain a right to in exchange for the goods or services. The standard also provides guidelines for recognizing transactions that were not regulated in detail in previous standards (e.g. revenues from services or modification of agreements) and contains more comprehensive explanations on the recognition of agreements with multiple deliverables. The standard does not apply to insurance contracts, financing arrangements and secondary activity (e.g. sale of fixed assets). The PZU Group applied IFRS 15 in accordance with the approach described in section C3 b) – retrospectively, with joint effect for contracts in force as at 1 January 2018 (date of initial application) recognized once as at that date. The PZU Group has analyzed the impact the new standard will have on agreements signed by PZU Group entities and has not identified any agreements, for which application of IFRS 15 would have a material effect on the consolidated financial statements. This is because revenues covered by IFRS 15 are of secondary importance to the financial reporting of the PZU Group.
Clarifications to IFRS 15 – revenue from contracts with customers	1 January 2018	1987/2017	The clarifications provide guidelines concerning the identification of the obligations to fulfil benefits (determining in which instances the promises set forth in a contract constitute "separate" goods or services that should be settled separately), accounting for intellectual property licenses (determining in which situations revenues from intellectual property licenses should be settled "over a certain period" and in which situations "at a given point in time") and the distinctions between a principal and an agent (stating more precisely that a principal under a given determination controls a good or service prior to turning it over to a client). Changes to the standard also include additional practical solutions facilitating the implementation of the new standard.
Amendment to IFRS 2 – Classification and valuation of share-based payment	1 January 2018	289/2018	The amendment provides guidance harmonizing accounting requirements for share-based payments settled in cash which adopt the same approach as that applied in the case of share-based payments settled in equity instruments, and contains an exception to IFRS 2 and clarification of situations where share-based payments settled in cash are changed to share-based payments settled in equity instruments due to changes in contractual provisions. The change did not affect the consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
Amendment to IAS 40 – Transfers of Investment Property	1 January 2018	800/2018	The amendment clarifies when the entity should transfer properties under construction to or from the investment property category in the event of change of the nature of the use of such property in situations other than specifically listed in IAS 40. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2014-2016	1 January 2018	182/2018	The amendments pertain to: 1. IFRS 1 – waiver of exemptions for first time adopters as regards certain disclosures; 2. IAS 28 – as regards the election by specified entities to measure at fair value through profit or loss interests in associates and joint ventures in accordance with IFRS 9. The amendments did not affect the PZU Group's consolidated financial statements.
IFRIC interpretation 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018	519/2018	The interpretation clarifies that the exchange rate should be applied in recognizing a transaction denominated in a foreign currency in accordance with IAS 21 if the client makes a non-refundable payment of an advance consideration for delivery of goods or services. The interpretation had no effect on the PZU Group's consolidated financial statements.

4.1.2. IFRS 9 – Financial Instruments

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

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

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

Effect of the application of the new standard

Because IFRS 9 has been in effect for a relatively short time, no uniform market practice has been developed yet in terms of the application of its provisions. New regulations are subject to ongoing interpretation by market players, i.e. issuers, the regulator and audit firms, and the positions presented to date differ from one another.

In the foregoing context, analysis of applying practical aspects of IFRS 9 requirements by the PZU Group to consolidation of receivables from the loans taken over in the Pekao and Alior Bank acquisition transactions, taking into account the initial fair value measurement in compliance with IFRS 3 and, in particular, the allocation of impairments to baskets as at the date of gaining control over Pekao and Alior Bank. Accordingly, the presented impact of the application of IFRS 9 on the PZU Group's consolidated financial statements may change. The final Pekao purchase price allocation will have a significant impact on the assessment of the total impact of the application of IFRS 9 on PZU Group's consolidated equity.

(in millions of PLN)

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Carrying amount under IFRS 9 as at 1 January 2018
Loan receivables from clients	Financial assets at amortized cost	167,497	-	(1,070)	166,427
	Financial assets at fair value through other comprehensive income	1,597	(73)	33	1,557
	Financial assets at fair value through profit or loss	363	(6)	8	365
Financial derivatives	Financial derivatives	2,351	-	-	2,351
Held to maturity	Financial assets at amortized cost	18,985	-	(11)	18,974
	Financial assets at fair value through other comprehensive income	2,204	66	-	2,270
	Financial assets at fair value through profit or loss	48	1	-	49
Available for sale	Financial assets at amortized cost	4,874	(1)	(2)	4,871
	Financial assets at fair value through other comprehensive income	43,385	2	(2)	43,385
	Financial assets at fair value through profit or loss	260	-	-	260
Measured at fair value through profit or loss	Financial assets at amortized cost	25	(2)	-	23
	Financial assets at fair value through other comprehensive income	491	-	-	491
	Financial assets at fair value through profit or loss	19,727	-	-	19,727
Loans – debt securities	Financial assets at amortized cost	8,515	(2)	(19)	8,494
	Financial assets at fair value through other comprehensive income	5,108	(2)	(9)	5,097
Loans - other	Financial assets at amortized cost	6,424	-	(45)	6,379
Cash and cash equivalents		8,239	-	-	8,239
Other assets		25,735	-	5	25,740
Deferred tax assets		1,577	3	217	1,797
Total assets		**317,405**	**(14)**	**(895)**	**316,496**

(in millions of PLN)

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Other changes	Carrying amount under IFRS 9 as at 1 January 2018
Equity attributable to equity holders of the parent		**14,622**	**(44)**	**(291)**	**(7)**	**14,280**
Share capital		86	-	-	-	86
Revaluation reserve		157	(34)	41	-	164
Other capital		11,760	-	-	-	11,760
Retained earnings		2,619	(10)	(332)	(7)	2,270
Non-controlling interest		**22,979**	**30**	**(757)**	**(12)**	**22,240**
Total equity		**37,601**	**(14)**	**(1,048)**	**(19)**	**36,520**
Financial liabilities held for trading	Financial liabilities at fair value through profit or loss	4,955	-	-		4,955
Financial liabilities at amortized cost	Financial liabilities at amortized cost	219,552	-	-		219,552
Provisions		45,611	-	153		45,764
Deferred tax liability		638	-	-		638
Other liabilities		9,048	-	-	19	9,067
Total liabilities		**279,804**	**-**	**153**	**19**	**279,976**
Total equity and liabilities		**317,405**	**(14)**	**(895)**	**-**	**316,496**

Classification and measurement of financial assets

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

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

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

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

The instruments are classified as at the time of application of IFRS 9 for the first time or at the time of recognition of the instrument. The classification may only be changed in very rare cases when the business model changes.

Business models

Financial assets are managed in accordance with business models applied to enable the provision of information for management purposes. The PZU Group performed a review of its models, focusing on the following issues, among others:

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

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

SPPI test

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

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

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

Financial assets measured at amortized cost

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

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

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

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

At the time of the first application of IFRS 9, an assessment was also made of the business model for investment securities which are mostly held to obtain cash flows and for sale, as a result of which it was concluded that it was common practice with respect to some of these securities to hold them to obtain cash flows and the intentions with respect to them remain unchanged. Therefore, it was concluded that the appropriate business model for these securities is a model whose objective is achieved by holding financial assets to collect contractual cash flows and accordingly they were reclassified to assets measured at amortized cost. Previously, these securities were classified as available for sale and measured at fair value through equity.

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Classification and measurement of financial liabilities

Financial liabilities measured at fair value through profit or loss

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

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

Financial liabilities measured at amortized cost

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

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

Impairment

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

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

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

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

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

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

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

The changed approach to calculation of impairment losses has significant consequences in the case of modelling the credit risk parameters and the final amount of the charges made. The loss identification period or IBNR charge are longer be used. The charge is calculated in three categories:

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

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

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

Calculation of PD and LGD parameters

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

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

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

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

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

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

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

Change in credit risk since initial recognition

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

If a financial instrument is determined to have low credit risk (i.e. has an external investment-grade rating) both at initial recognition and as at the reporting date, it is assumed that the credit risk associated with this instrument has not increased significantly.

For financial instruments, the PZU Group assesses whether credit risk has increased significantly by comparing lifetime PD as at the reporting date with lifetime PD estimated at the time of initial recognition.

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

- the criteria allow for identification of a significant increase in credit risk before the impairment of the exposure occurs,
- the criteria do not coincide with the 30-day past due period,
- the average time between identifying a significant increase in credit risk and impairment is reasonable,
- exposures are generally not transferred directly from basket 1 (12-month ECL) to basket 3 (impairment),
- there is no unreasonable volatility of allowances for expected credit losses resulting from transfers between 12-month ECL and lifetime ECL.

Hedge accounting

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

Disclosures

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

(in millions of PLN)

4.1.3. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Standard/interpretation	Effective date for annual periods starting from	Regulation approving the standard or interpretation	Notes
IFRS 16 – Leases	1 January 2019	1986/2017	IFRS 16 replaces IAS 17 *Leases* and any interpretations related to this standard. In respect of lessees, the new standard eliminates the distinction between financial leases and operating leases. The recognition of current operating leases in the statement of financial position will result in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of lease payments). The rights to use the leased object will be subject to amortization and interest will be charged on the liabilities. This will generate greater costs at the initial stage of the lease, even if the parties have agreed on fixed annual payments. Recognition of leases on the lessor's side will in most cases remain unchanged due to the maintenance of the breakdown between operating leases and financial leases. The PZU Group is currently in the process of assessing these contracts in terms of their fulfilment of the definition of lease and estimating the lease period and the impact on the consolidated financial statements. The PZU Group will take advantage of a waiver of the requirement to apply this standard to short-term leases and leases of low-value assets.
Amendment to IFRS 9	1 January 2019	498/2018	According to the current version of IFRS 9, certain options, which force a lender to accept reduced compensation for granting financing (in the case of a negative compensation payment) do not pass the SPPI test; accordingly any instruments containing such options cannot be classified as measured at amortized cost or at fair value through other comprehensive income. According to the amendment, the positive or negative sign of the prepayment amount will not be important; this means that, depending on the interest rate in effect when the agreement is terminated, payment can be made to a party resulting in prepayment. This compensation must be calculated in the same manner for both a penalty for prepayment and also for a gain earned on prepayment. The change will not affect to a material extent the PZU Group's consolidated financial statements.

(in millions of PLN)

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Notes
IFRS 17 – Insurance contracts	18 May 2017	1 January 2021	The purpose of the standard is to establish the uniform accounting principles for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard will ensure comparability of financial reports between different entities, states and capital markets. At this stage, it is not possible to estimate the effect of application of IFRS 17 on the PZU Group's comprehensive income and equity.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	7 June 2017	1 January 2019	The interpretation is to be applied to the determination of taxable profit, tax loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation will not affect the PZU Group's consolidated financial statements.
Amendment to IAS 28 – Long-term shares in associates and joint ventures	12 October 2017	1 January 2019	According to the amended IAS 28, long-term shares in associates and joint ventures for which the company does not apply the equity method, the applicable standard is IFRS 9, also with regard to impairment. The change will not affect to a material extent the PZU Group's consolidated financial statements.
Amendments to IAS 19 Employee Benefits	7 February 2018	1 January 2019	The amendment contains clarifications for the guidelines in case of a plan amendment, curtailment or settlement during the reporting period. The amendments require entities, after such an event, to use updated actuarial assumptions to calculate current service cost and net interest for the remaining part of the reporting period. The amendments also clarify how the plan amendment, curtailment or settlement affects the requirements related to the limit on the defined benefit asset. The IASB has decided that the scope of these amendments does not cover the settlement of "significant market fluctuation" (in euro). The amendments apply to plan amendments, curtailments or settlements that will take place on or after 1 January 2019, with the possibility of earlier application.
Amendments to IFRS 10, IFRS 12 and IFRS 28 – Sale or transfer of assets between the investor and an associate or a joint venture	11 September 2014	Deferred until an unspecified date	The main consequence of the amendment is the recognition of total profit or loss in a situation where the transaction concerns an organized business (regardless of whether it is located in a subsidiary or not), while partial gains or losses are recognized when the transaction relates to separate assets that do not form an organized business, even if they are located in the subsidiary. The amendments did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

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

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

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

Except for the change described in section 4.2.1, all other changes have already been included in the consolidated financial statements.

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

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

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

Comparative data have been restated accordingly.

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

Due to the completion of the final settlement of the acquisition of Bank BPH's Core Business, a retroactive restatement of data as at 31 March 2017 has been performed. More information on this purchase price allocation is presented in item 2.4.5 of the consolidated financial statements.

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

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

4.2.4. Change in presentation of commission revenues

In order to harmonize the presentation of commission revenues obtained by Alior Bank, a portion of commission revenues related to BPH's spun-off operations have been shifted from revenue from commissions and fees to net investment income.

4.2.5. Change in presentation of interest income and expenses for derivative instruments

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

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

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

(in millions of PLN)

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

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

Assets	**31 December 2017** *(historical)*	**Adjustment**	**31 December 2017** *(restated)*	**31 March 2017** *(historical)*	**Adjustment**	**31 March 2017** *(restated)*	**1 January 2017** *(historical)*	**Adjustment**	**1 January 2017** *(restated)*
Other assets	692	-	692	806	7 [2]	813	866	-	866
Loan receivables from clients	n/a	169,457 [1]	169,457	n/a	46,949 [1] (31) [2]	46,918	n/a	44,998 [1]	44,998
Financial derivatives	n/a	2,351 [1]	2,351	n/a	963 [1]	963	n/a	953 [1]	953
Investment financial assets	281,854	(171,808) [1]	110,046	105,809	(47,895) [1] [2]	57,914	105,286	(45,951) [1]	59,335
Available for sale	48,519	-	48,519	8,950	17 [2]	8,967	11,652	-	11,652
Measured at fair value through profit or loss	22,247	(2,004) [1]	20,243	22,221	(902) [1]	21,319	21,882	(881) [1]	21,001
Hedge derivatives	347	(347) [1]	n/a	61	(61) [1]	n/a	72	(72) [1]	n/a
Loans	189,504	(169,457) [1]	20,047	55,305	(46,949) [1]	8,356	54,334	(44,998) [1]	9,336
Deferred tax assets	1,577	-	1,577	671	9 [2]	680	633	-	633
Receivables	9,096	-	9,096	6,347	(51) [2]	6,296	5,664	-	5,664
Total assets	**317,405**	**-**	**317,405**	**126,733**	**(49) [2]**	**126,684**	**125,296**	**-**	**125,296**

[1] Change described in section 4.2.1.
[2] Change described in section 4.2.2.

(in millions of PLN)

Equity and liabilities	31 December 2017 *(historical)*	Adjustment	31 December 2017 *(restated)*	31 March 2017 *(historical)*	Adjustment	31 March 2017 *(restated)*	1 January 2017 *(historical)*	Adjustment	1 January 2017 *(restated)*
Equity									
Equity attributable to equity holders of the parent	14,622	-	14,622	13,941	(12) [1)]	13,929	12,998	-	12,998
Retained earnings	2,619	-	2,619	2,995	(12) [1)]	2,983	2,043	-	2,043
Retained earnings	(291)	-	(291)	2,055	(12) [1)]	2,043	108	-	108
Non-controlling interest	22,979	-	22,979	4,216	(31) [1)]	4,185	4,086	-	4,086
Total equity	**37,601**	**-**	**37,601**	**18,157**	**(43) [1)]**	**18,114**	**17,084**	**-**	**17,084**
Other liabilities	9,045	-	9,045	5,210	(6) [1)]	5,204	4,991	-	4,991
Total liabilities	**279,804**	**-**	**279,804**	**108,576**	**(6) [1)]**	**108,570**	**108,212**	**-**	**108,212**
Total equity and liabilities	**317,405**	**-**	**317,405**	**126,733**	**(49) [1)]**	**126,684**	**125,296**	**-**	**125,296**

[1)] Change described in section 4.2.2.

(in millions of PLN)

Consolidated profit and loss account	1 January – 31 March 2017 *(historical)*	Adjustment	1 January – 31 March 2017 *(restated)*
Revenue from commissions and fees	267	4 [2)] (20) [3)]	251
Net investment income	1,303	43 [4)] 20 [3)]	1,366
Net result on realization and impairment losses on investments	(213)	213 [1)]	n/a
Net result on realization of financial instruments and investments	n/a	10 [1)]	10
Movement in allowances for expected credit losses and impairment losses on financial instruments	n/a	(223) [1)]	(223)
Net movement in fair value of assets and liabilities measured at fair value	584	(58) [4)]	526
Other operating income	283	(4) [2)]	279
Fee and commission expenses	(81)	4 [5)]	(77)
Interest expenses	(187)	15 [4)]	(172)
Administrative expenses	(861)	(4) [5)]	(865)
Net profit	**1,007**	**-**	**1,007**

[1)] Change described in section 4.2.1.
[2)] Change described in section 4.2.3.
[3)] Change described in section 4.2.4.
[4)] Change described in section 4.2.5.
[5)] Change described in section 4.2.6.

5. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2018, no corrections were made of errors from previous years.

6. Material events after the end of the reporting period

No material events have occurred after the end of the reporting period.

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

In the 3-month period ended 31 March 2018, there were no material events that resulted in any significant change of the structure of financial statement items.

(in millions of PLN)

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premiums in non-life insurance	3,737	3,622
In direct insurance	3,724	3,615
In indirect insurance	13	7
Gross written premiums in life insurance	2,094	2,146
Individual insurance premiums	372	431
Individually continued insurance premiums	499	491
Group insurance premiums	1,223	1,224
Total gross written premiums	**5,831**	**5,768**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2018	1 January – 31 March 2017
Accident and sickness insurance (group 1 and 2)	161	154
Motor third party liability insurance (group 10)	1,454	1,374
Other motor insurance (group 3)	976	949
Marine, aviation and transport insurance (classes 4, 5, 6, 7)	17	18
Insurance against fire and other property damage (groups 8 and 9)	722	756
TPL insurance (groups 11, 12, 13)	231	219
Credit and suretyship (classes 14, 15)	23	18
Assistance (group 18)	114	105
Legal protection (group 17)	3	3
Other (group 16)	23	19
Total	**3,724**	**3,615**

8.2 Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 March 2018	1 January – 31 March 2017
Banking activity	653	196
Brokerage fees	53	30
Fiduciary activity	16	-
Payment card and credit card services	192	46
Fees on account of insurance intermediacy activities	32	15
Credits and loans	101	21
Bank account-related services	107	38
Transfers	75	16
Cash operations	24	9
Receivables purchased	9	4
Suretyship, letters of credit, collections, promises	18	3
Other commission	26	14
Revenue and payments received from funds and mutual fund companies	136	26
Pension insurance	40	28
Other	1	1
Total revenue from commissions and fees	**830**	**251**

(in millions of PLN)

8.3 Net investment income

Net investment income	1 January – 31 March 2018	1 January – 31 March 2017
Interest income, including:	2,724	1,132
Loan receivables from clients	1,978	768
Debt securities measured at fair value through other comprehensive income	248	n/a
Debt securities measured at amortized cost	314	n/a
Buy-sell-back transactions	17	8
Term deposits with credit institutions	31	6
Financial assets available for sale	n/a	48
Financial assets held to maturity	n/a	214
Debt securities classified in the loans portfolio	n/a	25
Loans	41	33
Receivables purchased	35	5
Hedge derivatives	30	11
Receivables	19	6
Cash and cash equivalents	11	8
Dividend income, including:	1	1
Investment financial assets measured at fair value through profit or loss	1	n/a
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	n/a	1
Income on investment property	64	61
Foreign exchange differences	130	202
Other, including:	(26)	(30)
Investment activity expenses	(6)	(11)
Investment property maintenance expenses	(27)	(24)
Other	7	5
Total net investment income	**2,893**	**1,366**

(in millions of PLN)

8.4 Net result on realization of financial instruments and investments

Net result on realization of financial instruments and investments	1 January – 31 March 2018	1 January – 31 March 2017
Investment financial assets	34	(66)
Debt instruments measured at fair value through other comprehensive income	33	n/a
Financial instruments measured at fair value through profit or loss	(1)	n/a
Equity instruments	11	n/a
Participation units and investment certificates	2	n/a
Debt instruments	(14)	n/a
Instruments measured at amortized cost	2	n/a
Financial assets available for sale, including:	n/a	(23)
Equity instruments	n/a	(22)
Debt securities	n/a	(1)
Financial assets measured at fair value through profit or loss – classified as such upon first recognition, including:	n/a	(41)
Equity instruments	n/a	(33)
Debt securities	n/a	(8)
Financial assets held for trading, including:	n/a	(2)
Equity instruments	n/a	33
Debt securities	n/a	(35)
Derivatives	n/a	-
Loan receivables from clients measured at amortized cost	3	-
Derivatives	40	88
Short sale	2	-
Loans	-	1
Receivables	(14)	(13)
Net result on realization of financial instruments and investments	**65**	**10**

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

Impairment losses	1 January – 31 March 2018	1 January – 31 March 2017
Investment financial assets	16	-
Debt instruments measured at fair value through other comprehensive income	3	n/a
Instruments measured at amortized cost	13	n/a
- debt instruments	8	n/a
- loans	5	n/a
Loan receivables from clients	(399)	(209)
Measured at amortized cost	(404)	(209)
Measured at fair value through other comprehensive income	5	n/a
Receivables	(38)	(14)
Total net result on realization and impairment losses on investments	**(421)**	**(223)**

(in millions of PLN)

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

Net movement in fair value of assets and liabilities measured at fair value	1 January – 31 March 2018	1 January – 31 March 2017
Investment financial instruments measured at fair value through profit or loss	(98)	n/a
Equity instruments	(154)	n/a
Debt securities	118	n/a
Participation units and investment certificates	(62)	n/a
Investment financial instruments measured at fair value through profit or loss – classified in that category upon first recognition, including:	n/a	411
Equity instruments	n/a	412
Debt securities	n/a	(1)
Investment financial instruments held for trading, including:	n/a	145
Equity instruments	n/a	172
Debt securities	n/a	(27)
Derivatives	28	30
Measurement of liabilities to members of consolidated mutual funds	6	(41)
Investment contracts for the client's account and risk (unit-linked)	10	(17)
Investment property	(7)	(2)
Loan receivables from clients	(2)	-
Net movement in fair value of assets and liabilities measured at fair value, total	**(63)**	**526**

8.7 Other operating income

Other operating income	1 January – 31 March 2018	1 January – 31 March 2017
Revenues on the sales of products, merchandise and services by non-insurance companies	164	95
Revenues from direct claims handling on behalf of other insurance companies	53	56
Reversal of provisions	185 [1)]	6
Reimbursement of the costs of pursuit of claims	6	9
Reinsurance commissions and profit participation	9	9
Reversal of impairment losses for non-financial assets	-	17
Indemnity received	10	2
Interest for late payment of amounts due under direct insurance and outward reinsurance	9	2
Gain from sale of property, plant and equipment	6	-
Commissions for acting as an emergency adjuster	2	2
Written off liabilities on account of premium refunds and payment surpluses	4	57
Other	47	24
Other operating income, total	**495**	**279**

[1)] Including PLN 182 million of the banks' establishment of provisions for guarantees and sureties given.

(in millions of PLN)

8.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 January – 31 March 2018	1 January – 31 March 2017
Claims, benefits and movement in technical provisions	**3,731**	**3,792**
In non-life insurance	2,153	1,839
- claims and benefits	1,779	1,662
- movement in technical provisions	179	(10)
- claims handling expenses	195	187
In life insurance	1,578	1,953
- claims and benefits	1,592	1,628
- movement in technical provisions	(48)	292
- claims handling expenses	34	33
Reinsurers' share in claims, benefits and movement in technical provisions	(105)	(82)
In non-life insurance	(105)	(82)
Total net insurance claims and benefits	**3,626**	**3,710**

8.9 Fee and commission expenses

Fee and commission expenses	1 January – 31 March 2018	1 January – 31 March 2017
Costs of card and ATM transactions, including card issue costs	88	32
Commissions on acquisition of banking clients	16	7
Fees for the provision of ATMs	22	5
Costs of awards to banking clients	3	7
Costs of bank transfers and remittances	9	5
Additional services attached to banking products	7	5
Brokerage fees	5	1
Costs of administration of bank accounts	1	-
Costs of banknote operations	3	1
Fiduciary activity expenses	4	-
Other commission	13	14
Total fee and commission expenses	**171**	**77**

8.10 Interest expenses

Interest expenses	1 January – 31 March 2018	1 January – 31 March 2017
Term deposits	273	84
Current deposits	98	24
Outstanding own debt securities	102	45
Hedge derivatives	1	8
Loans	2	-
Repurchase transactions	14	6
Bank loans contracted by PZU Group companies	2	1
Other	7	4
Total interest expenses	**499**	**172**

(in millions of PLN)

8.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2018	1 January – 31 March 2017
Consumption of materials and energy	74	71
Third party services	402	254
Taxes and fees	26	20
Employee expenses	1,171	685
Depreciation of property, plant and equipment	92	50
Amortization of intangible assets	88	50
Other, including:	783	705
- commissions in insurance activities	595	561
- advertising	58	27
- remuneration of group insurance administrators in work establishments	52	53
- other	78	64
Movement in deferred acquisition expenses	(41)	(56)
Administrative, acquisition and claims handling expenses, total	**2,595**	**1,779**

8.12 Other operating expenses

Other operating expenses	1 January – 31 March 2018	1 January – 31 March 2017
Levy on financial institutions	269	124
Expenses of the core business of non-insurance and non-banking companies	178	122
Direct claims handling expenses on behalf of other insurance undertakings	53	56
Compulsory payments to insurance market institutions and banking market institutions	33	20
Bank Guarantee Fund	230	22
Insurance Indemnity Fund	17	17
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	20	20
Expenditures for prevention activity	9	17
Establishment of provisions	159 [1)]	7
Amortization of intangible assets purchased in company acquisition transactions	80	20
Recognition of impairment losses for non-financial assets	10	25
Donations	24	1
Other	114	53
Other operating expenses, total	**1,196**	**504**

[1)] Including PLN 153 million of the banks' reversal of provisions for guarantees and sureties given.

8.13 Earnings per share

Earnings per share	1 January – 31 March 2018	1 January – 31 March 2017
Net profit attributable to the equity holders of the parent company	640	940
Weighted average basic and diluted number of common shares	863,511,199	863,512,144
Number of outstanding shares	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(11,801)	(10,856)
Basic and diluted earnings (losses) per common share (in PLN)	0.74	1.09

In the 3-month period ended 31 March 2018, there were no transactions or events resulting in the dilution of earnings per share.

(in millions of PLN)

8.14 Income tax

Total amount of current and deferred tax	1 January – 31 March 2018	1 January – 31 March 2017
Recognized through profit or loss	(356)	(252)
- current tax	(333)	(29)
- deferred tax	(23)	(223)
Recognized in other comprehensive income (deferred tax)	(3)	(13)
Total amount of current and deferred tax	**(359)**	**(265)**

Income tax on other comprehensive income items	1 January – 31 March 2018	1 January – 31 March 2017
Gross other comprehensive income	79	20
Income tax	(14)	(13)
Investment financial instruments measured at fair value through other comprehensive income	(4)	n/a
Measurement of loan receivables from clients	(9)	n/a
Measurement of financial instruments available for sale	n/a	(13)
Other	(1)	-
Net other comprehensive income	**65**	**7**

8.15 Goodwill

Goodwill	31 March 2018	31 December 2017	31 March 2017 (restated)
Pekao	1,586	1,586	-
Alior Bank	746	746	746
PIM	692	692	-
Lietuvos Draudimas AB [1)]	466	462	467
Mass insurance segment in non-life insurance (Link4)	221	221	221
AAS Balta	38	37	38
Medical companies	100	90	82
Other	5	5	5
Total goodwill	**3,854**	**3,839**	**1,559**

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

8.16 Intangible assets

Intangible assets by type groups	31 March 2018	31 December 2017	31 March 2017
Software, licenses and similar assets	1,261	1,282	733
Trademarks	608	607	268
Client relations	1,199	1,282	255
Intangible assets under development	231	251	162
Other intangible assets	20	21	21
Total intangible assets	**3,319**	**3,443**	**1,439**

(in millions of PLN)

8.17 Other assets

Other assets	31 March 2018	31 December 2017	31 March 2017
Reinsurance settlements	79	157	305
Estimated salvage and subrogation	183	192	170
Deferred IT expenses	72	63	44
Accrued direct claims handling receivables	60	60	48
Inventories	62	73	119
Accruals under insurance contracts (outside of the PZU Group)	51	58	2
Accruals on account of property tax, tax on means of transport and land tax	28	-	8
Accruals on account of costs of charges for the Company Social Benefit Fund	36	-	15
Other assets	106	89	102
Total other assets	**677**	**692**	**813**

8.18 Property, plant and equipment

Property, plant and equipment by type groups	31 March 2018	31 December 2017	31 March 2017
Plant and machinery	543	555	299
Means of transport	119	127	84
Property, plant and equipment under construction	127	176	43
Real property	2,131	2,167	789
Other property, plant and equipment	217	214	219
Total property, plant and equipment	**3,137**	**3,239**	**1,434**

8.19 Loan receivables from clients

Loan receivables from clients	31 March 2018	31 December 2017	31 March 2017
Measured at amortized cost	168,737	169,457	46,918
Measured at fair value through other comprehensive income	1,379	n/a	n/a
Measured at fair value through profit or loss	357	n/a	n/a
Total receivables from clients on account of loans	**170,473**	**169,457**	**46,918**

The amount of allowances for expected credit losses (impairment losses as at 31 December 2017 and 31 March 2017) as at 31 March 2018 was PLN 14,059 million (as at 31 December 2017: PLN 8,839 million, as at 31 March 2017: PLN 3,321 million).

The allowance for expected credit losses related to receivables from clients on account of loans measured at fair value through other comprehensive income is recognized under "Revaluation reserve" and does not reduce the carrying amount of assets. The value of the allowance as at 31 March 2018 is PLN 16 million.

(in millions of PLN)

Loan receivables from clients	31 March 2018	31 December 2017	31 March 2017
Retail segment	**91,092**	**89,407**	**25,862**
Operating loans	263	278	292
Consumer finance	25,815	26,185	14,322
Consumer finance loans	2,275	2,129	1,355
Loan to purchase securities	98	109	139
Overdrafts in credit card accounts	1,086	1,297	604
Loans for residential real estate	60,432	58,456	8,309
Other mortgage loans	843	832	816
Other receivables	280	121	25
Business segment	**79,381**	**80,050**	**21,056**
Operating loans	34,090	33,879	11,393
Car financing loans	65	80	127
Investment loans	25,966	26,108	8,112
Receivables purchased (factoring)	4,872	4,576	808
Overdrafts in credit card accounts	132	179	-
Loans for residential real estate	25	24	-
Other mortgage loans	8,023	8,465	-
Financial leases	5,547	5,086	-
Other receivables	661	1,653	616
Total receivables from clients on account of loans	**170,473**	**169,457**	**46,918**

(in millions of PLN)

8.20 Financial derivatives

Derivatives – assets	31 March 2018	31 December 2017	31 March 2017
Interest rate derivatives	**1,589**	**1,699**	**641**
Instruments designated as fair value hedges – unquoted instruments, including:	32	16	-
- SWAP transactions	32	16	-
Instruments designated as cash flow hedges – unquoted instruments, including:	209	289	61
- SWAP transactions	209	289	61
Instruments carried as held for trading, including:	1,348	1,394	580
Instruments quoted on a regulated market, including:	-	-	5
- forward contracts	-	-	5
Unquoted instruments, including:	1,348	1,394	575
- FRA transactions	2	1	-
- SWAP transactions	1,335	1,381	552
- call options (purchase)	9	10	1
- put options (sale)	2	2	
- other	-	-	22
Total foreign exchange derivatives	**345**	**444**	**250**
Instruments designated as cash flow hedges – unquoted instruments, including:	20	42	-
- SWAP transactions	20	42	-
Instruments carried as held for trading, including:	325	402	250
Instruments quoted on a regulated market, including:	7	19	3
- forward contracts	6	19	3
- put options (sale)	1	-	-
Unquoted instruments, including:	318	383	247
- forward contracts	127	175	46
- SWAP transactions	139	164	176
- call options (purchase)	34	27	24
- put options (sale)	18	17	1
Derivatives related to equity prices – carried as held for trading, total	**80**	**104**	**72**
Instruments quoted on a regulated market, including:	-	-	4
- put options (sale)	-	-	4
Unquoted instruments, including:	80	104	68
- call options (purchase)	77	102	67
- put options (sale)	3	2	1
Derivatives related to commodity prices – carried as held for trading, total	**102**	**104**	**-**
Instruments quoted on a regulated market, including:	10	10	-
- forward contracts	10	10	-
Unquoted instruments, including:	92	94	-
- forward contracts	19	19	-
- SWAP transactions	54	59	-
- call options (purchase)	18	15	-
- put options (sale)	1	1	-
Derivatives – assets, total	**2,116**	**2,351**	**963**

(in millions of PLN)

Derivatives – liabilities	31 March 2018	31 December 2017	31 March 2017
Interest rate derivatives	**2,619**	**2,797**	**599**
Instruments designated as fair value hedges – unquoted instruments, including:	152	186	-
- SWAP transactions	152	186	-
Instruments designated as cash flow hedges – unquoted instruments, including:	710	682	12
- SWAP transactions	710	682	12
Instruments carried as held for trading, including:	1,757	1,929	587
Instruments quoted on a regulated market, including:	-	-	7
- forward contracts	-	-	7
Unquoted instruments, including:	1,757	1,929	580
- FRA transactions	2	-	-
- SWAP transactions	1,747	1,921	553
- call options (purchase)	3	2	-
- put options (sale)	5	6	3
- other	-	-	24
Total foreign exchange derivatives	**313**	**517**	**114**
Instruments designated as cash flow hedges – unquoted instruments, including:	4	-	-
- SWAP transactions	4	-	-
Instruments carried as held for trading, including:	309	517	114
Instruments quoted on a regulated market, including:	20	1	-
- forward contracts	20	1	-
Unquoted instruments, including:	289	516	114
- forward contracts	154	221	44
- SWAP transactions	84	256	45
- call options (purchase)	12	8	-
- put options (sale)	39	31	25
Derivatives related to equity prices – carried as held for trading, total	**45**	**57**	**23**
Unquoted instruments, including:	45	57	23
- call options (purchase)	1	10	1
- put options (sale)	44	47	22
Derivatives related to commodity prices – carried as held for trading, total	**101**	**103**	**-**
Instruments quoted on a regulated market, including:	21	21	-
- forward contracts	21	21	-
Unquoted instruments, including:	80	82	-
- forward contracts	7	7	-
- SWAP transactions	54	59	-
- call options (purchase)	10	8	-
- put options (sale)	9	8	-
Derivatives – liabilities, total	**3,078**	**3,474**	**736**

(in millions of PLN)

8.21 Investment financial assets

8.21.1. Financial assets measured at amortized cost

Investment financial assets measured at amortized cost	31 March 2018	31 December 2017	31 March 2017
Debt securities	**33,292**	**n/a**	**n/a**
Government securities	24,685	n/a	n/a
Domestic	24,578	n/a	n/a
Fixed rate	23,244	n/a	n/a
Floating rate	1,334	n/a	n/a
Foreign	107	n/a	n/a
Fixed rate	107	n/a	n/a
Other	8,607	n/a	n/a
Quoted on a regulated market	534	n/a	n/a
Fixed rate	222	n/a	n/a
Floating rate	312	n/a	n/a
Not quoted on a regulated market	8,073	n/a	n/a
Fixed rate	929	n/a	n/a
Floating rate	7,144	n/a	n/a
Other, including:	**10,926**	**n/a**	**n/a**
Buy-sell-back transactions	2,750	n/a	n/a
Term deposits with credit institutions	4,368	n/a	n/a
Loans	3,808	n/a	n/a
Total investment financial assets measured at amortized cost	**44,218**	**n/a**	**n/a**

The value of allowance for expected credit losses on financial assets measured at amortized cost as at 31 March 2018 is PLN 113 million (of which PLN 71 million refers to debt securities, PLN 41 million of loans and PLN 1 million of term deposits with credit institutions).

(in millions of PLN)

8.21.2. Assets measured at fair value through other comprehensive income

Investment financial assets measured at fair value through other comprehensive income	31 March 2018	31 December 2017	31 March 2017
Classified on the basis of the business model	**42,296**	**n/a**	**n/a**
Debt securities	42,296	n/a	n/a
Government securities	33,189	n/a	n/a
Domestic	31,601	n/a	n/a
Fixed rate	18,673	n/a	n/a
Floating rate	12,928	n/a	n/a
Foreign	1,588	n/a	n/a
Fixed rate	1,588	n/a	n/a
Other	9,107	n/a	n/a
Quoted on a regulated market	961	n/a	n/a
Fixed rate	574	n/a	n/a
Floating rate	387	n/a	n/a
Not quoted on a regulated market	8,146	n/a	n/a
Fixed rate	3,644	n/a	n/a
Floating rate	4,502	n/a	n/a
Designated at initial recognition	**751**	**n/a**	**n/a**
Equity instruments	751	n/a	n/a
Quoted on a regulated market	530	n/a	n/a
Grupa Azoty SA	462	n/a	n/a
Polimex-Mostostal SA	53	n/a	n/a
Other	15	n/a	n/a
Not quoted on a regulated market	221	n/a	n/a
Biuro Informacji Kredytowej SA	185	n/a	n/a
PSP sp. z o.o.	19	n/a	n/a
Krajowa Izba Rozliczeniowa SA	11	n/a	n/a
Other	6	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income, total	**43,047**	**n/a**	**n/a**

The allowance for expected credit losses related to debt securities measured at fair value through other comprehensive income is recognized under "Revaluation reserve" and does not reduce the carrying amount of assets. The value of the allowance as at 31 March 2018 is PLN 21 million.

(in millions of PLN)

8.21.3. Assets measured at fair value through profit or loss

Investment financial assets measured at fair value through profit or loss	31 March 2018	31 December 2017	31 March 2017
Equity instruments	2,041	n/a	n/a
Quoted on a regulated market	1,472	n/a	n/a
Not quoted on a regulated market	569	n/a	n/a
Participation units and investment certificates	3,893	n/a	n/a
Quoted on a regulated market	80	n/a	n/a
Not quoted on a regulated market	3,813	n/a	n/a
Debt instruments	15,217	n/a	n/a
Government securities	14,904	n/a	n/a
Domestic	12,591	n/a	n/a
Fixed rate	10,968	n/a	n/a
Floating rate	1,623	n/a	n/a
Foreign	2,313	n/a	n/a
Fixed rate	2,297	n/a	n/a
Floating rate	16	n/a	n/a
Other	313	n/a	n/a
Quoted on a regulated market	179	n/a	n/a
Fixed rate	179	n/a	n/a
Not quoted on a regulated market	134	n/a	n/a
Floating rate	134	n/a	n/a
Investment financial assets measured at fair value through profit or loss, total	**21,151**	**n/a**	**n/a**

8.21.4. Financial assets held to maturity

Investment financial assets held to maturity	31 March 2018	31 December 2017	31 March 2017
Debt securities	n/a	21,237	19,272
Government securities	n/a	21,006	19,051
Domestic	n/a	20,641	18,687
Fixed rate	n/a	19,277	18,002
Floating rate	n/a	1,364	685
Foreign	n/a	365	364
Fixed rate	n/a	365	364
Other	n/a	231	221
Quoted on a regulated market	n/a	102	98
Fixed rate	n/a	102	98
Not quoted on a regulated market	n/a	129	123
Fixed rate	n/a	31	-
Floating rate	n/a	98	123
Investment financial assets held to maturity, total	**n/a**	**21,237**	**19,272**

The value of impairment losses for financial assets held to maturity was PLN 1 million both as at 31 December 2017 and as at 31 March 2017.

(in millions of PLN)

8.21.5. Financial assets available for sale

Financial assets available for sale	31 March 2018	31 December 2017	31 March 2017
Equity instruments	n/a	664	379
Quoted on a regulated market	n/a	262	145
Not quoted on a regulated market	n/a	402	234
Debt securities	n/a	47,855	8,588
Government securities	n/a	33,649	8,033
Domestic	n/a	32,547	7,666
Fixed rate	n/a	20,753	5,643
Floating rate	n/a	11,794	2,023
Foreign	n/a	1,102	367
Fixed rate	n/a	1,102	367
Other	n/a	14,206	555
Quoted on a regulated market	n/a	694	36
Fixed rate	n/a	694	36
Not quoted on a regulated market	n/a	13,512	519
Fixed rate	n/a	13,077 [1)]	11
Floating rate	n/a	435	508
Total financial instruments available for sale	**n/a**	**48,519**	**8,967**

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

The value of the impairment loss for financial assets available for sale was PLN 34 million as at 31 December 2017 (as at 31 March 2017: PLN 54 million). The impairment loss was recognized under "Revaluation reserve" and did not reduce the carrying amount of assets.

(in millions of PLN)

8.21.6. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss	31 March 2018	31 December 2017	31 March 2017
Assets classified into this category upon first recognition	**n/a**	**6,650**	**11,170**
Equity instruments	n/a	1,947	3,191
Quoted on a regulated market	n/a	1,781	3,023
Not quoted on a regulated market	n/a	166	168
Debt instruments	n/a	4,703	7,979
Government securities	n/a	4,664	7,887
Domestic	n/a	4,351	5,795
Fixed rate	n/a	4,054	4,221
Floating rate	n/a	297	1,574
Foreign	n/a	313	2,092
Fixed rate	n/a	313	2,092
Floating rate	n/a	-	-
Other	n/a	39	92
Quoted on a regulated market	n/a	39	92
Fixed rate	n/a	39	92
Assets held for trading	**n/a**	**13,593**	**10,149**
Equity instruments	n/a	4,617	4,310
Quoted on a regulated market	n/a	562	700
Not quoted on a regulated market	n/a	4,055	3,610
Debt instruments	n/a	8,976	5,839
Government securities	n/a	8,699	5,765
Domestic	n/a	6,702	3,483
Fixed rate	n/a	4,834	3,338
Floating rate	n/a	1,868	145
Foreign	n/a	1,997	2,282
Fixed rate	n/a	1,964	2,282
Floating rate	n/a	33	-
Other	n/a	277	74
Quoted on a regulated market	n/a	175	-
Fixed rate	n/a	175	-
Not quoted on a regulated market	n/a	102	74
Floating rate	n/a	102	74
Total financial assets measured at fair value through profit or loss	**n/a**	**20,243**	**21,319**

(in millions of PLN)

8.21.7. Loans

Loans	31 March 2018	31 December 2017	31 March 2017
Debt securities	**n/a**	**13,623**	**2,459**
Government securities	n/a	1	2
Foreign	n/a	1	2
Fixed rate	n/a	1	2
Other	n/a	13,622	2,457
Quoted on a regulated market	n/a	977	-
Fixed rate	n/a	281	-
Floating rate	n/a	696	-
Not quoted on a regulated market	n/a	12,645	2,457
Fixed rate	n/a	1,181	-
Floating rate	n/a	11,464	2,457
Other, including:	**n/a**	**6,424**	**5,897**
Buy-sell-back transactions	n/a	885	1,397
Term deposits with credit institutions	n/a	1,841	1,201
Loans	n/a	3,698	3,299
Total loans	**n/a**	**20,047**	**8,356**

The value of the impairment loss for financial assets classified in the loan portfolio was PLN 116 million as at 31 December 2017 (as at 31 March 2017: PLN 86 million).

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

As at 31 March 2018

Country	Currency	Purchase price	Carrying amount	Fair value measurement
Argentina	USD	81	76	76
Azerbaijan	USD	10	9	9
Brazil	USD	76	70	70
Bulgaria	EUR	71	73	74
Chile	EUR/USD	36	35	35
Croatia	EUR/USD	97	94	94
Dominican Republic	USD	30	28	28
Philippines	USD	42	38	38
Greece	EUR	88	87	87
Spain	EUR	10	10	10
Indonesia	EUR/USD	179	175	175
Jamaica	USD	14	13	13
Kazakhstan	USD	26	24	24
Columbia	USD	107	97	97
Costa Rica	USD	11	11	11
Lithuania	EUR/USD	471	480	481
Latvia	EUR	56	58	58
Mexico	EUR/USD	88	82	82
Germany	EUR	482	479	479
Oman	USD	32	29	29
Pakistan	USD	10	10	10
Panama	USD	31	28	28
Peru	PEN/USD	68	66	66
Russia	USD	48	44	44
South Africa	USD/ZAR	145	139	139
Romania	EUR/RON/USD	261	264	264

(in millions of PLN)

Country	Currency	Purchase price	Carrying amount	Fair value measurement
Serbia	USD	10	9	9
Slovenia	EUR	43	45	45
Sri Lanka	USD	43	39	39
United States	USD	890	857	857
Turkey	EUR/USD	157	149	149
Ukraine	EUR/UAH/USD	60 [1)]	59 [1)]	59 [1)]
Uruguay	USD	27	25	25
Hungary	EUR/HUF/USD	238	224	224
Italy	EUR	15	14	14
Côte d'Ivoire	USD	10	9	9
Other	EUR/GBP/USD	63	59	59
Total		**4,126**	**4,008**	**4,010**

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

As at 31 December 2017

Country	Currency	Purchase price	Carrying amount	Fair value measurement
Argentina	ARS/USD	102	101	101
Azerbaijan	USD	10	10	10
Brazil	USD	106	105	105
Bulgaria	EUR	54	55	58
Chile	USD	21	20	20
Croatia	EUR/USD	101	98	99
Dominican Republic	USD	30	30	30
Philippines	USD	42	41	41
Spain	EUR	10	10	10
Indonesia	EUR/USD	198	199	199
Jamaica	USD	14	14	14
Kazakhstan	USD	26	26	26
Columbia	USD	114	110	110
Costa Rica	USD	11	11	11
Lithuania	EUR/USD	424	431	435
Latvia	EUR	62	64	65
Mexico	EUR/MXN/USD	94	88	88
Germany	EUR	461	449	449
Oman	USD	32	31	31
Pakistan	USD	10	10	10
Panama	USD	31	31	31
Peru	PEN/USD	83	84	84
Russia	USD	48	46	46
South Africa	USD/ZAR	134	133	133
Romania	EUR/RON/USD	109	106	108
Serbia	USD	10	10	10
Slovakia	EUR	22	20	20
Slovenia	EUR	45	48	48
Sri Lanka	USD	43	42	42
United States	USD	854	833	833
Turkey	EUR/USD	151	150	150
Ukraine	EUR/USD/UAH	771[)]	621[)]	621[)]
Uruguay	USD	27	27	27
Hungary	EUR/HUF/USD	205	195	196
Italy	EUR	19	18	18

(in millions of PLN)

Country	Currency	Purchase price	Carrying amount	Fair value measurement
Côte d'Ivoire	USD	10	10	10
Other	EUR/USD/GBP	63	60	61
Total		**3,853**	**3,778**	**3,791**

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

As at 31 March 2017

Country	Currency	Purchase price	Carrying amount	Fair value measurement
Argentina	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
Czech Republic	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.

(in millions of PLN)

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

As at 31 March 2018

Issuer	Purchase price	Carrying amount	Fair value measurement	Impairment loss
Companies from the WIG-Banks Index	638	641	650	9
Companies from the WIG-Chemicals Index	9	9	9	-
Companies from the WIG-Energy Index	1,768	1,782	1,792	8
Companies from the WIG-Fuels Index	367	368	370	-
Mining and quarrying (including companies included in the WIG-Mining index)	160	192	178	-
Manufacturing	1,164	1,170	1,221	5
Transportation and storage	1,832	1,837	1,802	7
Public utility services	215	215	216	1
Privately held domestic banks	20	20	22	-
Foreign banks	61	62	62	-
Domestic local governments	5,804	5,890	5,926	15
National Bank of Poland	3,633	3,633	3,633	-
Other	2,407	2,208	2,217	41
Total	**18,078**	**18,027**	**18,098**	**86**

As at 31 December 2017

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

(in millions of PLN)

As at 31 March 2017

Issuer	Purchase price	Carrying amount	Fair value measurement	Impairment loss
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-Commodities Index	273	233	231	60
Other	365	320	320	17
Total	**3,448**	**3,399**	**3,417**	**78**

8.21.10. Changes in the economic situation and business conditions with material effect on the fair value of financial assets and liabilities

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

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

In the 3-month period ended 31 March 2018, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

8.22 Fair value

8.22.1. Description of valuation techniques

8.22.1.1. Debt securities and loans

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

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

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

8.22.1.2. Equity-based financial assets

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

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.

8.22.1.3. Derivatives

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

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

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

8.22.1.4. Loan receivables from clients

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

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

8.22.1.5. Real properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

8.22.1.6. Financial liabilities

Liabilities under deposits

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

Liabilities on the issue of own debt securities and subordinated liabilities

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

8.22.2. Fair value hierarchy

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

- Level I – assets and liabilities measured based on quoted prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid quoted debt securities;
  - shares and investment certificates quoted on exchanges;
  - derivatives quoted on exchanges;
- Level II – assets and liabilities whose measurement is based on input data other than quoted prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - quoted debt securities carried on the basis of the valuations published by an authorized information service;
  - derivatives – among others FX Swap, FX Forward, IRS, CIRS, FRA;
  - participation units in mutual fund;
  - investment properties or properties held for sale measured using the comparative method, including free land free land for development and certain smaller and less valuable buildings (such as residential units, garages, etc.);
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:
  - unquoted debt securities and non-liquid quoted debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities), measured using models based on discounted cash flows;
  - investment properties or properties held for sale measured using the income method or the residual method;
  - loan receivables from clients and liabilities to clients under deposits;
  - options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Loan receivables from clients	Liquidity margin and current margin from the sale of the product group	Fair values are estimated using valuation techniques, with an assumption that when the loan is granted, the fair value is equal to the carrying amount. The fair value of loans without recognized impairment is equal to the sum of future expected cash flows discounted at the balance sheet date less expected credit loss. The cash flow discounting rate is the appropriate risk-free market rate plus the liquidity margin and current sales margin for the loan's product group. The margin is determined by product group and by maturity. For the purpose of estimating the fair value of foreign currency loans, the liquidity margin for PLN loans is used, adjusted by quotations of fx swap and basis-swap transactions. The fair value of loans with recognized impairment is equal to the sum of future expected salvage discounted using the effective interest rate, since the average expected recoveries fully reflect the credit risk component. For loans that do not have a repayment schedule (current account loans, overdrafts and credit cards), the fair value is assumed to be equal to the carrying amount.	Negative correlation.
Liabilities to clients under deposits	Sales margin	Fair values are estimated using valuation techniques, with an assumption that when the deposit is accepted, the fair value is equal to the carrying amount. The fair value of term deposits is equal to the sum of future expected cash flows discounted at the balance sheet date. The cash flow discounting rate is the appropriate risk-free market rate plus the current sales margin. The margin is determined on the basis of deposits accepted in the last quarter, by product group and by maturity. For short-term deposits (current deposits, overnight deposits and savings accounts), the carrying amount is taken as fair value.	Negative correlation.
Options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.	Model parameters	Embedded instruments are plain vanilla options and exotic options for individual shares, indices, commodities and other market indicators, including interest rate indices and exchange rates and their baskets. All separated options are offset on an ongoing basis on the interbank market. Currency options are measured based on the Garman-Kohlhagen option pricing model (and in the case of barrier and Asian options based on the so-called extended Garman-Kohlhagen model). Exotic options embedded in deposit agreements and their offsets are measured using the Monte-Carlo technique, assuming a geometric Brownian motion model for risk factors.	
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or a similar issuer. These spreads are observed on the dates of issue of new bond series, dates of conclusion of new loan agreements and dates of market transactions on the receivables following from such bonds and loans.	Negative correlation.
Investment property and property available for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
	Monthly rental rate per m^2 of relevant space or per parking space	Rental rates are observed for similar properties of similar quality, in similar locations and with a similar size of leased space.	Positive correlation.

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

(in millions of PLN)

8.22.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	31 March 2018				31 December 2017				31 March 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets												
Investment financial assets measured at fair value through other comprehensive income	30,186	8,120	4,741	43,047	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Equity instruments	530	-	221	751	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debt securities	29,656	8,120	4,520	42,296	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Investment financial assets measured at fair value through profit or loss	13,656	7,220	275	21,151	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Equity instruments, participation units and investment certificates	1,497	4,340	97	5,934	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Debt securities	12,159	2,880	178	15,217	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Loan receivables from clients	-	-	1,736	1,736	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Measured at fair value through other comprehensive income	-	-	1,379	1,379	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Measured at fair value through profit or loss	-	-	357	357	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial derivatives	19	2,013	84	2,116	29	2,222	100	2,351	20	875	68	963
Financial assets available for sale	n/a	n/a	n/a	n/a	30,027	17,081	1,411	48,519	8,176	219	572	8,967
Equity instruments	n/a	n/a	n/a	n/a	210	156	298	664	145	196	38	379
Debt securities	n/a	n/a	n/a	n/a	29,817	16,925	1,113	47,855	8,031	23	534	8,588
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	n/a	n/a	6,143	464	43	6,650	8,921	2,209	40	11,170
Equity instruments	n/a	n/a	n/a	n/a	1,802	127	18	1,947	3,076	100	15	3,191
Debt securities	n/a	n/a	n/a	n/a	4,341	337	25	4,703	5,845	2,109	25	7,979
Financial instruments measured at fair value through profit or loss – held for trading	n/a	n/a	n/a	n/a	7,363	6,133	97	13,593	4,054	5,958	137	10,149
Equity instruments	n/a	n/a	n/a	n/a	526	4,091	-	4,617	700	3,610	-	4,310
Debt securities	n/a	n/a	n/a	n/a	6,837	2,042	97	8,976	3,354	2,348	137	5,839
Investment property	-	157	2,232	2,389	-	151	2,203	2,354	-	154	1,591	1,745

(in millions of PLN)

Assets and liabilities measured at fair value	31 March 2018				31 December 2017				31 March 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Liabilities												
Derivatives	32	2,998	48	3,078	22	3,400	52	3,474	22	688	26	736
Liabilities to members of consolidated mutual funds	-	365	-	365	-	420	-	420	-	1,684	-	1,684
Investment contracts for the client's account and risk *(unit-linked)*	-	298	-	298	-	312	-	312	-	331	-	331
Liabilities on borrowed securities (short sale)	732	-	-	732	737	13	-	750	611	-	-	611

(in millions of PLN)

Change in assets and liabilities classified as Level III of the fair value hierarchy	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss		Financial derivatives	Investment properties	Derivatives – liabilities measured at fair value
	Equity	Debt	Equity	Debt			
Beginning of the period – classification at the moment of application of IFRS 9	**221**	**4,855**	**95**	**163**	**100**	**2,203**	**52**
Purchase	-	-	-	30	5	28	4
Reclassification from own properties	-	-	-	-	-	9	-
Profit or loss recognized in the profit and loss account as:	-	6	2	1	(21)	(7)	(7)
- net investment income	-	6	1	-	1	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	1	1	(22)	(7)	(7)
Profit or loss recognized in other comprehensive income	-	4	-	-	-	-	-
Sales	-	(114)	-	(16)	-	(1)	-
Settlements/redemptions	-	(27)	-	-	-	-	(1)
Reclassifications to level 2	-	(204)	-	-	-	-	-
End of the period	**221**	**4,520**	**97**	**178**	**84**	**2,232**	**48**

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the year ended 31 December 2017	Financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon first recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment properties	Financial liabilities – Derivatives
	Equity	Debt	Equity	Debt	Debt	Derivatives		
Balance at the beginning of the period	38	614	17	25	135	53	1,589	26
Purchase/opening of the position	6	-	21	-	290	32	63	23
Reclassification from Level II	-	662 [1)]	-	-	4	-	-	-
Reclassification from own properties and properties held for sale	-	-	-	-	-	-	830	-
Profit or loss recognized in the profit and loss account as:	-	31	2	2	3	37	(101)	19
- net investment income	-	31	5	-	-	(1)	-	-
- net result on realization and impairment losses on investments	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(3)	2	3	38	(101)	19
Net movement in fair value of assets and liabilities measured at fair value, recognized in other comprehensive income	(10)	(26)	-	-	-	-	-	-
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	(196)	-
Change in the composition of the Group	267	252	-	-	45	-	22	-
Foreign exchange translation differences	(3)	-	-	-	-	-		-
Sale and settlements	-	(437)	(22)	(2)	(380)	(22)	(4)	(16)
Other	-	17	-	-	-	-	-	-
End of the period	**298**	**1,113**	**18**	**25**	**97**	**100**	**2,203**	**52**

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

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period from 1 January to 31 March 2017	Financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon first recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment properties	Financial liabilities – Derivatives
	Equity	Debt	Equity	Debt	Debt	Derivatives		
Balance at the beginning of the period	38	614	17	25	135	53	1,589	26
Purchase/opening of the position	-	-	-	-	-	10	3	9
Reclassification from Level II	-	-	-	-	-	-	1	-
Profit or loss recognized in the profit and loss account as:	-	3	(2)	-	2	24	-	6
- net investment income	-	4	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	(1)	(2)	-	2	24	-	6
Net movement in fair value of assets and liabilities measured at fair value, recognized in other comprehensive income	-	(2)	-	-	-	-	-	-
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	(2)	-
Sale and settlements	-	(81)	-	-	-	(19)	-	(15)
End of the period	**38**	**534**	**15**	**25**	**137**	**68**	**1,591**	**26**

(in millions of PLN)

8.22.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	31 March 2018				31 December 2017				31 March 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets												
Loan receivables from clients measured at amortized cost	-	-	168,590	168,590	-	-	169,393	169,393	-	-	46,450	46,450
Debt securities measured at amortized cost	21,173	3,130	11,321	35,624	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Entities measured by the equity method – EMC	-	19	-	19	-	20	-	20	-	41	-	41
Financial assets held to maturity	n/a	n/a	n/a	n/a	17,631	305	5,582	23,518	15,555	26	5,646	21,227
Debt securities classified in the loans portfolio	n/a	n/a	n/a	n/a	1	8,153	5,500	13,654	2	-	2,471	2,473
Buy-sell-back transactions	-	738	2,012	2,750	-	553	333	886				
Term deposits with credit institutions	-	2,077	2,291	4,368	-	838	1,005	1,843				
Loans	-	-	3,916	3,916	-	-	3,744	3,744	-	-	3,325	3,325
Liabilities												
Liabilities to banks	-	776	4,995	5,771	-	1,161	4,092	5,253	-	380	118	498
Liabilities to clients	-	-	196,059	196,059	-	-	201,605	201,605	-	-	50,515	50,515
Liabilities on the issue of own debt securities	-	3,519	6,870	10,389	-	2,808	6,584	9,392	-	20	6,413	6,433
Subordinated liabilities	-	1,268	4,093	5,361	-	1,257	4,108	5,365	-	-	1,024	1,024

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

In the 3-month period ended 31 March 2018, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

8.22.2.4. Reclassification between fair value hierarchy levels

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

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

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

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

In the 3-month period ended 31 March 2018, the following reclassifications of assets between fair value levels was made:

- PLN-denominated treasury bonds, for which active market quotations were available, were reclassified from Level II to Level I;
- a municipal bond measured using market information about prices of comparable financial instruments and a derivative equity market transaction were reclassified from Level III to Level I because the unobservable factor (correlation) had no significant impact on measurement.

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

(in millions of PLN)

8.23 Receivables

Receivables – carrying amount	31 March 2018	31 December 2017	31 March 2017
Receivables on direct insurance, including:	2,346	2,482	2,243
- receivables from policyholders	2,202	2,320	2,072
- receivables from insurance intermediaries	105	134	153
- other receivables	39	28	18
Reinsurance receivables	112	68	81
Other receivables	4,815	6,546	3,972
- receivables from disposal of securities and security deposits [1]	2,874	4,658	3,021
- receivables on account of payment card settlements	746	716	121
- trade receivables	348	295	125
Receivables from the state budget, other than corporate income tax receivables	154	100	70
- receivables from debt factoring	10	68	-
- prevention settlements	57	58	45
- receivables from direct claims handling on behalf of other insurance undertakings	26	29	35
- disputed settlements	9	7	-
- receivables for acting as an emergency adjuster	13	12	12
- receivables on account of Corporate Income Tax	48	57	95
- receivables from purchase price allocation of the acquisition of Bank BPH's Core Business	-	94	94
- receivables from security and bid deposits	91	91	-
- other	439	361	354
Total receivables	**7,273**	**9,096**	**6,296**

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

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

The amount of allowances for expected credit losses (impairment losses as at 31 December 2017 and 31 March 2017) on receivables as at 31 March 2018 was PLN 663 million (as at 31 December 2017: PLN 649 million, as at 31 March 2017: PLN 605 million).

(in millions of PLN)

8.24 Assets held for sale

Assets held for sale by classification before transfer	31 March 2018	31 December 2017	31 March 2017
Groups held for sale	**116**	**113**	**1,116**
Assets	119	116	1,159
Investment property	92	90	1,002
Financial assets	-	-	23
Receivables	1	1	67
Deferred tax assets	6	6	2
Cash and cash equivalents	18	17	58
Other assets	2	2	7
Liabilities related directly to assets classified as held for sale	3	3	43
Deferred tax liability	-	-	15
Other liabilities	3	3	28
Other assets held for sale	**179**	**201**	**127**
Property, plant and equipment	85	104	38
Investment property	94	97	89
Assets and groups of assets held for sale	**298**	**317**	**1,286**
Liabilities related directly to assets classified as held for sale	**3**	**3**	**43**

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

8.25 Issued share capital and other capital attributable to equity holders of the parent

8.26 Share capital

Share capital is recognized at the amount stated in the parent company's articles of association and registered in the National Court Register

All the Shares have been fully paid for.

As at 31 March 2018 and 31 December 2017

Series/ issue	Type of shares	Type of preference	Type of limitation on rights to shares	Number of shares	Value of series/issue at par value (PLN)	Capital coverage	Date of registration	Right to dividends (from a date)
A	bearer	none	none	604,463,200	60,446,320	cash	1997/01/23	1991/12/27
B	bearer	none	none	259,059,800	25,905,980	in-kind contribution	1999/03/31	1999/01/01
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

The structure of PZU's shareholders and information on transactions with material blocks of PZU shares are presented in section 2.

(in millions of PLN)

8.27 Technical provisions

Technical provisions	31 March 2018			31 December 2017			31 March 2017		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**22,425**	**(1,200)**	**21,225**	**22,000**	**(1,250)**	**20,750**	**20,924**	**(1,003)**	**19,921**
Provision for unearned premiums	8,144	(390)	7,754	7,877	(466)	7,411	7,516	(357)	7,159
Provision for unexpired risk	22	(2)	20	37	(3)	34	21	-	21
Provisions for outstanding claims and benefits	8,467	(611)	7,856	8,301	(585)	7,716	7,760	(460)	7,300
- for reported claims	3,175	(556)	2,619	3,187	(533)	2,654	2,974	(417)	2,557
- for claims not reported (IBNR)	3,495	(45)	3,450	3,348	(41)	3,307	2,991	(24)	2,967
- for claims handling expenses	1,797	(10)	1,787	1,766	(11)	1,755	1,795	(19)	1,776
Provision for the capitalized value of annuities	5,783	(191)	5,592	5,776	(190)	5,586	5,625	(186)	5,439
Provisions for bonuses and discounts for insureds	9	(6)	3	9	(6)	3	2	-	2
Technical provisions in life insurance	**22,515**	**-**	**22,515**	**22,558**	**-**	**22,558**	**22,086**	**-**	**22,086**
Provision for unearned premiums	94	-	94	94	-	94	92	-	92
Life insurance provision	16,114	-	16,114	16,060	-	16,060	15,947	-	15,947
Provisions for outstanding claims and benefits	569	-	569	597	-	597	549	-	549
- for reported claims	141	-	141	153	-	153	157	-	157
- for claims not reported (IBNR)	421	-	421	437	-	437	386	-	386
- for claims handling expenses	7	-	7	7	-	7	6	-	6
Provisions for bonuses and discounts for insureds	6	-	6	5	-	5	4	-	4
Other technical provisions	276	-	276	287	-	287	312	-	312
Unit-linked provision	5,456	-	5,456	5,515	-	5,515	5,182	-	5,182
Total technical provisions	**44,940**	**(1,200)**	**43,740**	**44,558**	**(1,250)**	**43,308**	**43,010**	**(1,003)**	**42,007**

The amount of impairment losses on reinsurers' share in technical provisions shown in the table above as at 31 March 2018 was PLN 11 million (as at 31 December 2017: PLN 12 million, as at 31 March 2017: PLN 12 million).

(in millions of PLN)

8.28 Other provisions

Movement in other provisions in the period 1 January – 31 March 2018	As at 31 December 2017	Application of IFRS 9	Beginning of the period	Increase	Utilization	Reversal	End of the period
Provision for restructuring expenses	63	-	63	-	(19)	-	44
Provision for disputed claims and potential liabilities	82	-	82	1	-	(3)	80
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	57	-	57	-	-	-	57
Provision for the costs of closing the Graphtalk project	6	-	6	-	-	-	6
Provisions for guarantees and sureties given	260	153	413	153	-	(182)	384
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	9	-	-	-	9
Other	20	-	20	5	-	-	25
Total other provisions	**497**	**153**	**650**	**159**	**(19)**	**(185)**	**605**

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

Movement in other provisions in the period 1 January – 31 March 2017	Beginning of the period	Increase	Utilization	Reversal	Other changes	End of the period
Provision 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 fees to the Social Insurance Institution	9	-	-	-	-	9
Other	31	6	(1)	(6)	-	30
Total other provisions	**367**	**7**	**(21)**	**(6)**	**2**	**349**

[1] The main component of the "Provision for penalties imposed by the Office of Competition and Consumer Protection" is explained in section 23.2.

(in millions of PLN)

Provisions for guarantees and sureties given

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

8.29 Financial liabilities

Financial liabilities	31 March 2018	31 December 2017	31 March 2017
Financial liabilities measured at fair value	**4,473**	**4,956**	**3,362**
Derivatives held for trading	2,212	2,606	724
Cash flow hedge derivatives	714	682	12
Fair value hedge derivatives	152	186	-
Liabilities on borrowed securities (short sale)	732	750	611
Investment contracts for the client's account and risk (unit-linked)	298	312	331
Liabilities to members of consolidated mutual funds	365	420	1,684
Financial liabilities measured at amortized cost	**219,900**	**219,551**	**55,712**
Liabilities to banks	5,760	5,323	478
Current deposits	1,620	996	2
One-day deposits	7	372	-
Term deposits	303	311	-
Loans received	3,594	3,380	300
Other liabilities	236	264	176
Liabilities to clients	195,838	198,163	47,601
Current deposits	116,035	122,956	26,440
Term deposits	78,926	74,453	20,699
Other liabilities	877	754	462
Liabilities on the issue of own debt securities	10,333	9,567	6,345
Subordinated liabilities	5,313	5,319	1,024
Liabilities on account of repurchase transactions	2,633	1,167	214
Investment contracts with guaranteed and fixed terms and conditions	1	1	50
Finance lease liabilities	22	11	-
Total financial liabilities	**224,373**	**224,507**	**59,074**

8.30 Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 31 March 2018 (PLN million)	Carrying amount 31 December 2017 (PLN million)	Carrying amount 31 March 2017 (PLN million)
Liabilities classified as PZU's equity							
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,257	2,285	-
Liabilities classified as Pekao's equity							
Subordinated bonds – Pekao	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,268	1,257	-
Liabilities classified as Alior Bank's equity							
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	42	42	42
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	222	225	222
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	193	196	193
I and I1 series bonds	183	PLN	WIBOR 6M + margin	6 December 2015 6 December 2021	150	147	149
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	612	605	-
Meritum Bank B series bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68	69
Meritum Bank C series bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	82	80	82
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	42	43	43
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	153	150	153
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	71	70	71
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	152	151	-
Subordinated liabilities					**5,313**	**5,319**	**1,024**

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

8.31 Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	31 March 2018	31 December 2017	31 March 2017
Bonds of PZU Finance AB (publ.)	3,523	3,478	3,524
Alior Bank series J bonds	251	253	-
Pekao bonds	773	90	-
Certificates of deposit	4,580	4,498	2,821
Covered bonds	1,206	1,248	-
Liabilities on the issue of own debt securities	**10,333**	**9,567**	**6,345**

(in millions of PLN)

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

Bonds classified as measured at amortized cost

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

8.32 Other liabilities

Other liabilities	31 March 2018	31 December 2017	31 March 2017
Accrued expenses	**1,389**	**1,462**	**1,016**
Accrued expenses of agency commissions	331	336	304
Accrued sales commission expenses in group insurance	7	8	8
Accrued payroll expenses	174	160	170
Accrued reinsurance expenses	145	367	290
Accrued employee bonuses	391	320	69
Other	341	271	175
Deferred revenue	**327**	**354**	**150**
Other liabilities	**7,658**	**7,229**	**4,038**
Liabilities due under transactions on financial instruments	2,202	1,772	1,590
Liabilities to banks for payment documents cleared in interbank clearing systems	1,867	2,125	379
Liabilities on direct insurance	857	840	835
Liabilities on account of payment card settlements	409	437	116
Regulatory settlements	164	151	75
Liabilities for contributions to the Bank Guarantee Fund	253	80	-
Reinsurance liabilities	231	140	189
Estimated non-insurance liabilities	60	126	64
Liabilities to employees	220	163	195
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	114	121	79
Trade liabilities	219	320	90
Current income tax liabilities	413	390	64
Liabilities to the state budget other than for income tax	113	110	57
Liabilities on account of donations	25	28	27
Liabilities to the State Fire Service and Voluntary Fire Service	20	5	19
Liabilities on account of non-market lease contracts	12	14	27
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	16	17	21
Insurance Indemnity Fund	16	16	16
Liabilities for direct claims handling	11	14	9
Other	436	360	186
Other liabilities, total	**9,374**	**9,045**	**5,204**

(in millions of PLN)

9. Financial assets securing liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	31 March 2018	31 December 2017	31 March 2017
Carrying amount of financial assets pledged as collateral for liabilities	12,423	10,421	921
Repurchase transactions	2,632	1,166	214
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,030	1,348	215
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	62	44	-
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	72	73	-
Lombard and technical credit	5,673	4,697	116
Other loans	593	652	221
Issue of covered mortgage bonds	1,543	1,577	-
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	47	52	-
Derivative transactions	771	812	155
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**12,423**	**10,421**	**921**

10. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2018	31 December 2017	31 March 2017
Contingent assets, including:	10	6	25
- guarantees and sureties received	10	6	25
Contingent liabilities	59,085	58,978	16,493
- for renewable limits in settlement accounts and credit cards	14,209	14,536	13,819
- for loans in tranches	30,084	29,766	298
- guarantees and sureties given	7,586	7,574	1,437
- disputed insurance claims	543	711	689
- other disputed claims	211	212	199
- other, including:	6,452	6,179	51
- guaranteeing securities issues	3,648	3,492	-
- factoring	952	899	-
- intra-day limit	918	114	-
- letters of credit and commitment letters	844	818	-
- potential liabilities under loan agreements concluded by the Armatura Group	33	30	26

11. Commentary to the condensed interim consolidated financial statements

In the 3-month period ended 31 March 2018, gross written premium was PLN 5,831 million compared to PLN 5,768 million in the corresponding period of the previous year (+1.1%). The increase in sales applied above all to the following:

- motor insurance in the mass client segment (+PLN 41 million), mainly due to an increase in average premium;
- motor insurance in the corporate client segment (+PLN 32 million) due to an increase in average premium;
- growth of sales in foreign companies (+PLN 60 million), mainly motor insurance in the Baltic states segment;
- growth of the group health product portfolio.

The increases have been partially offset by the lower premiums in the individual insurance segment (-PLN 62 million), which was driven mainly by lower contributions to unit-linked accounts in the bancassurance channel.

Investment income (including investment contracts i.e. contracts that involve no considerable insurance risk) in Q1 2018 and Q1 2017 were PLN 2,474 million and PLN 1,679 million, respectively. Investment income from deposits in the banking business increased due to the consolidation of Pekao, while the investment result without banking activity decreased.

Income on investing activity, excluding banking business, fell mainly due to the worse performance achieved in quoted equity instruments, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 8.4% in Q1 2018 compared to an increase of 11.9% in the corresponding period of the previous year.

Net claims and benefits (including the movement in technical provisions) were PLN 3,626 million, or 2.3% less than in the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, a negative investment result on most unit-linked product portfolios, compared with high, positive results achieved last year and lower client deposits to accounts in individual unit-linked products in the bancassurance channel;
- lower level of benefits in protection insurance, in particular as a result of a decrease in the incidence of deaths in the period under analysis as compared to the previous year.

On the other hand, an increase in the net claims and benefits category was recorded in the motor insurance group in the corporate and mass client segments in connection with remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident.

In Q1 2018 acquisition expenses rose by PLN 57 million compared to the corresponding period of the previous year, driven mainly by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from an increase of the portfolio and a change of the product mix.

PZU Group's administrative expenses in Q1 2018 amounted to PLN 1,615 million compared to PLN 865 million in the corresponding period of 2017, increasing by 86.7% over the previous year. The increase resulted mainly from the consolidation of Pekao in June 2017. Administrative expenses of the banking activity segment increased by PLN 769 million y/y. At the same time, administrative expenses in the insurance activity segments in Poland PLN 17 million lower than in the corresponding period of the previous year. The change resulted from lower costs of project activities and marketing costs.

In Q1 2018, the balance of other net operating income and expenses was negative and amounted to PLN 701 m compared with the also negative balance for 2017 of PLN 225 million. The change resulted among others from a higher levy on financial institutions and an increase in Bank Guarantee Fund charges. The PZU Group's liabilities on account of the levy on financial institutions (on both the insurance and banking business) in Q1 2018 was PLN 269 million vs. PLN 124 million in the corresponding period of 2017, while the BFG charges rose from PLN 22 million to PLN 230 million (in both cases due to the consolidation of Pekao).

Interest expenses after Q1 2018 were PLN 499 million, making them higher by PLN 327 million compared to the corresponding period of the previous year. The increase pertained mainly to interest earned on term deposits and current on banking activity and interest on own debt securities issued, primarily in connection with the issue of subordinated bonds by PZU in the amount of PLN 2,250 million in June 2017.

After Q1 2018, operating profit was PLN 1,399 million, up by PLN 140 million (+11.1%) compared to the result in the corresponding period of the previous year. This movement resulted in particular from:

- higher result of the banking segment following the consolidation of Pekao (+PLN 563 million) and an improvement in the Alior Bank's result (+PLN 113 million) in connection with high sales of credit products supported by positive economic conditions;
- higher result of the corporate insurance segment (+PLN 89 million) driven by an improved profitability of the portfolio of insurance against catastrophic and other material losses (much lower claims with high unit values) and motor insurance (in particular MOD);

- lower profitability in the mass insurance segment compared to the corresponding period of 2017 (-PLN 10 million) – as a result of a remeasurement of provisions for claims for general damages due to vegetative state.
- lower investment income as a result of a decrease in the result on quoted equities in connection with worse economic conditions on the WSE, partially offset by the better performance of the Polish treasury bond portfolio.
- increased profitability in group and individually continued insurance (+PLN 35 million) as a result of a continuous growth of the insurance portfolio and an improvement in the loss ratio of protection products compared to last year – in the period under analysis the incidence of deaths was lower.

The net profit grew in comparison to Q1 2017 by PLN 36 million (+3.6%) to PLN 1,043 million. The net profit attributable to parent company shareholders was PLN 640 million, compared to PLN 940 million in 2017 (down 31.9%).

As at 31 March 2018, consolidated equity according to IFRS was PLN 37,630 million compared to PLN 18,114 million as at 31 March 2017. The increase in consolidated equity pertained to non-controlling interests, which amounted to PLN 22,753 million in H1 2017, mainly due to the consolidation of Pekao. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2018 to 31 March 2018 was 17.6%, down 10.3 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2017, equity increased by PLN 29 million and their change was caused in particular by the net result earned in Q1 2018, offset by the influence of the application of IFRS 9. Equity attributable to parent company shareholders rose by PLN 255 million compared to the end of the previous year, which resulted from the net result attributed to the parent company in Q1 2018, partially offset by the effect of the application of IFRS 9.

Total equity and liabilities as at 31 March 2018 increased compared to 31 December 2017 by PLN 794 to PLN 318,199 million. The increase pertained mainly to the balance of other liabilities (+PLN 329 million) and technical provisions (+PLN 382 million).

The investment portfolio[3] as at 31 March 2018 and 31 December 2017, excluding the impact of the banking business, was PLN 49,794 million and PLN 46,164 million, respectively. The PLN 3,630 million increase was related mainly to debt instruments. Loan receivables as at 31 March 2018 were PLN 170,473 million compared to PLN 169,457 million as at 31 December 2017.

The value of technical provisions at the end of Q1 2018 was PLN 44,940 million and accounted for 14.1% of total equity and liabilities. Compared to 31 December 2017, provisions rose by PLN 382 million. This change resulted primarily from the following:

- an increase in the provision for unearned premiums in non-life insurance resulting from expanding insurance sales;
- remeasurement of provisions, mainly in motor insurance, for claims for general damages due to vegetative state;
- lower provisions in unit-linked life insurance products due to the negative result on investment activity;
- higher mathematical reserves in continued business associated with the indexation of sums insured and the higher average age of the insured.

12. Capital management

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

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;

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[2] Annualized ratio.

[3] The investment portfolio contains financial assets net of loan receivables, investment properties (including the part presented in the category of assets held for sale) and the negative valuation of derivatives and liabilities arising from sell-buy-back transactions.

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

The capital management policy rests on the following principles:

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

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below;

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

External capital requirements

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

Pursuant to art. 412 section 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2016 report published on 30 June 2017 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. For the 2017 report, the publication deadline is no later than 24 weeks after the year end, i.e. in practice until 18 June 2018. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance company is audited by an audit firm.

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

13. Segment reporting

13.1 Reportable segments

13.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation

Segment	Accounting standards	Segment description	Aggregation criteria
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

13.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

13.2 Inter-segment settlements

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

13.3 Segment's measure of profit

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

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

13.4 Accounting policies applied according to PAS

13.4.1. PZU

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

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

13.4.2. PZU Życie

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

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

The fundamental difference between PAS and IFRS in respect of accounting for insurance agreements and investment contracts at PZU Życie is the classification of contracts. There is no term "investment contract" in PAS, as a consequence of which all agreements are classified as insurance 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;

(in millions of PLN)

- presenting the net result on investments as a single amount as the difference between the realized and unrealized revenues and the costs of investments – stemming from the internal assessment of the segmental results based on such a combined measure of investment results;
- not allocating other revenues and costs to the segment called „investments" besides realized and unrealized revenues and costs of investments – stemming from the method of analyzing this segment's data and the impracticality of such an allocation.

13.6 Quantitative data

Corporate insurance (non-life insurance)	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium – external	627	626
Gross written premium – cross-segment	(1)	4
Gross written premiums	**626**	**630**
Movement in provision for unearned premiums and gross provision for unexpired risks	50	(89)
Gross earned premium	**676**	**541**
Reinsurers' share in gross written premium	(39)	(79)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(59)	(1)
Net earned premium	**578**	**461**
Investment income, including:	29	14
external operations	29	14
intersegment operations	-	-
Other net technical income	20	24
Income	**627**	**499**
Net insurance claims and benefits	(329)	(297)
Acquisition expenses	(113)	(100)
Administrative expenses	(30)	(32)
Reinsurance commissions and profit participation	9	6
Other	(24)	(25)
Insurance result	**140**	**51**

(in millions of PLN)

Mass insurance (non-life insurance)	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium – external	2,711	2,653
Gross written premium – cross-segment	18	-
Gross written premiums	**2,729**	**2,653**
Movement in provision for unearned premiums and gross provision for unexpired risks	(260)	(452)
Gross earned premium	**2,469**	**2,201**
Reinsurers' share in gross written premium	(3)	(1)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(21)	(22)
Net earned premium	**2,445**	**2,178**
Investment income, including:	134	94
external operations	134	94
intersegment operations	-	-
Other net technical income	35	70
Income	**2,614**	**2,342**
Net insurance claims and benefits	(1,532)	(1,292)
Acquisition expenses	(451)	(415)
Administrative expenses	(130)	(142)
Reinsurance commissions and profit participation	(3)	(1)
Other	(113)	(97)
Insurance result	**385**	**395**

Group and individually continued insurance (life insurance)	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium – external	1,722	1,714
Gross written premium – cross-segment	-	-
Gross written premiums	**1,722**	**1,714**
Movement in the provision for unearned premiums	(1)	-
Gross earned premium	**1,721**	**1,714**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**1,721**	**1,714**
Investment income, including:	122	230
external operations	122	230
intersegment operations	-	-
Income	**1,843**	**1,944**
Net insurance claims and benefits and movement in other net technical provisions	(1,314)	(1,452)
Acquisition expenses	(84)	(82)
Administrative expenses	(143)	(149)
Other	(12)	(6)
Insurance result	**290**	**255**

(in millions of PLN)

Individual insurance (life insurance)	**1 January – 31 March 2018**	**1 January – 31 March 2017**
Gross written premium – external	346	408
Gross written premium – cross-segment	-	-
Gross written premiums	**346**	**408**
Movement in the provision for unearned premiums	2	2
Gross earned premium	**348**	**410**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-
Net earned premium	**348**	**410**
Investment income, including:	15	180
external operations	15	180
intersegment operations	-	-
Income	**363**	**590**
Net insurance claims and benefits and movement in other net technical provisions	(260)	(492)
Acquisition expenses	(33)	(34)
Administrative expenses	(18)	(15)
Other	(1)	-
Insurance result	**51**	**49**

Investments	**1 January – 31 March 2018**	**1 January – 31 March 2017**
Investment income, including:	(56)	332
- external operations	(78)	326
- intersegment operations	22	6
Operating result	**(56)**	**332**

Banking activity	**1 January – 31 March 2018**	**1 January – 31 March 2017**
Revenue from commissions and fees	760	199
Investment income, including:	2,275	680
- external operations	2,275	680
- intersegment operations	-	-
Income	**3,035**	**879**
Fee and commission expenses	(170)	(74)
Interest expenses	(465)	(156)
Administrative expenses	(1,240)	(471)
Other [1)]	(366)	(60)
Operating result	**794**	**118**

(in millions of PLN)

Pension insurance	1 January – 31 March 2018	1 January – 31 March 2017
Investment income, including:	2	1
external operations	2	1
intersegment operations	-	-
Other income	36	28
Income	**38**	**29**
Administrative expenses	(8)	(13)
Other	(2)	(1)
Operating result	**28**	**15**

Insurance - Baltic States	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium – external	375	315
Gross written premium – cross-segment	-	-
Gross written premiums	**375**	**315**
Movement in provision for unearned premiums and gross provision for unexpired risks	(24)	(21)
Gross earned premium	**351**	**294**
Reinsurers' share in gross written premium	(20)	(16)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	9	7
Net earned premium	**340**	**285**
Investment income, including:	3	8
external operations	3	8
intersegment operations	-	-
Income	**343**	**293**
Net insurance claims and benefits	(211)	(185)
Acquisition expenses	(75)	(64)
Administrative expenses	(29)	(27)
Other	1	-
Insurance result	**29**	**17**

(in millions of PLN)

Insurance - Ukraine	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium – external	52	52
Gross written premium – cross-segment	-	-
Gross written premiums	**52**	**52**
Movement in provision for unearned premiums and gross provision for unexpired risks	(1)	(3)
Gross earned premium	**51**	**49**
Reinsurers' share in gross written premium	(18)	(21)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(1)	-
Net earned premium	**32**	**28**
Investment income, including:	2	4
external operations	2	4
intersegment operations	-	-
Income	**34**	**32**
Net insurance claims and benefits	(13)	(10)
Acquisition expenses	(19)	(16)
Administrative expenses	(5)	(6)
Other	6	6
Insurance result	**3**	**6**

Investment contracts	1 January – 31 March 2018	1 January – 31 March 2017
Gross written premium	12	13
Movement in the provision for unearned premiums	-	-
Gross earned premium	**12**	**13**
Reinsurers' share in gross written premium	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-
Net earned premium	**12**	**13**
Investment income, including:	(7)	19
external operations	(7)	19
intersegment operations	-	-
Other income	-	-
Income	**5**	**32**
Net insurance claims and benefits and movement in other net technical provisions	(2)	(29)
Acquisition expenses	-	-
Administrative expenses	(2)	(2)
Operating result	**1**	**1**

Other segments	1 January – 31 March 2018	1 January – 31 March 2017
Investment income, including:	-	-
- external operations	-	-
- intersegment operations	-	-
Other income	245	213
Income	**245**	**213**
Costs	(262)	(236)
Other	6	17
Operating result	**(11)**	**(6)**

(in millions of PLN)

Reconciliations 1 January 2018 - 31 March 2018	Net earned premium	Investment income	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	578	29	(329)	(113)	(30)	140
Mass insurance	2,445	134	(1,532)	(451)	(130)	385
Group and individually continued insurance	1,721	122	(1,314)	(84)	(143)	290
Individual insurance	348	15	(260)	(33)	(18)	51
Investments	-	(56)	-	-	-	(56)
Banking activity	-	2,275	-	-	(1,240)	794
Pension insurance	-	2	-	(2)	(8)	28
Insurance - Baltic States	340	3	(211)	(75)	(29)	29
Insurance - Ukraine	32	2	(13)	(19)	(5)	3
Investment contracts	12	(7)	(2)	-	(2)	1
Other segments	-	-	-	-	-	(11)
Total segments	**5,476**	**2,519**	**(3,661)**	**(777)**	**(1,605)**	**1,654**
Presentation of investment contracts	(12)	9	2	-	-	-
Estimated salvage and subrogation	-	-	(3)	-	-	(3)
Valuation of equity instruments	-	(14)	-	-	-	(14)
Measurement of properties	-	(1)	-	-	-	(1)
Elimination of the equalization provision and prevention fund	-	-		-	-	2
Consolidation adjustments [1)]	(6)	(39)	36	26	(10)	(239)
Consolidated data	**5,458**	**2,474**	**(3,626)**	**(751)**	**(1,615)**	**1,399**

Reconciliations 1 January 2017 - 31 March 2017 (restated)	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	-	680	-	-	(471)	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**	**1,562**	**(3,757)**	**(712)**	**(857)**	**1,233**
Presentation of investment contracts	(13)	(16)	29	-	-	-
Estimated salvage and subrogation	-	-	13	-	-	13
Valuation of equity instruments	-	11	-	-	-	11
Elimination of the equalization provision and prevention fund	-	-		-	-	(17)
Consolidation adjustments [1)]	(4)	122	5	18	(8)	19
Consolidated data	**5,072**	**1,679** [2)]	**(3,710)**	**(694)**	**(865)**	**1,259**

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

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

(in millions of PLN)

Geographic breakdown 1 January – 31 March 2018 and as at 31 March 2018	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	5,404	375	52	-	5,831
Gross written premium – cross-segment	16	-	-	(16)	-
Revenue from commissions and fees	830	-	-	-	830
Investment income [1]	2,469	3	2	-	2,474
Non-current assets, other than financial assets [2]	6,214	238	4	-	6,456
Deferred tax assets	1,824	-	2	-	1,826
Assets	316,981	2,309	296	(1,387)	318,199

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

Geographic breakdown 31 December 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Non-current assets, other than financial assets [1]	6,438	240	4	-	6,682
Deferred tax assets	1,575	-	2	-	1,577
Assets	316,335	2,190	267	(1,387)	317,405

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

Geographic breakdown 1 January – 31 March 2017 and as at 31 March 2017	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	5,401	315	52	-	5,768
Gross written premium – cross-segment	-	-	-	-	-
Revenue from commissions and fees	251	-	-	-	251
Investment income [1]	1,667	8	4		1,679
Non-current assets, other than financial assets [2]	2,611	258	4	-	2,873
Deferred tax assets	678	-	2	-	680
Assets	125,858	1,989	246	(1,409)	126,684

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

13.7 Information on key customers

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

(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 2018	1 January – 31 March 2017	% change
Motor TPL insurance	194	168	15.5%
MOD insurance	211	205	2.9%
Total motor insurance	405	373	8.6%
Insurance against fire and other damage to property	97	142	(31.7%)
Other liability insurance (groups 11, 12, 13)	81	74	9.5%
ADD and other insurance [1)]	43	41	5.0%
Total non-life insurance without motor insurance	221	257	(14.0%)
Total corporate insurance segment (non-life insurance)	**626**	**630**	**(0.6%)**

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

In Q1 2018, in the corporate insurance segment, gross written premium decreased slightly by PLN 4 million (-0.6% y/y) as compared to Q1 2017. The following factors were recorded concerning premiums:

- higher premiums in motor insurance (+8.6% y/y) offered through leasing companies and in fleet insurance (chiefly TPL insurance) as a consequence of the higher average premium and the lower number of insurance products;
- development of the assistance and accident insurance portfolio following from the extension of cooperation between TUW PZUW and its strategic partners;
- higher sales in the other liability insurance group (+9.5% y/y) as a result of signing of several high-value contracts and the higher premium from the insurance of medical entities in TUW PZUW;
- decline in the sales of insurance against fire and other damage to property (-31.7% y/y) – acquisition of a long-term contract with a mining sector company in the same period of 2017.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	626	630	(0.6%)
Net earned premium	578	461	25.4%
Investment income	29	14	107.1%
Net insurance claims and benefits	(329)	(297)	10.8%
Acquisition expenses	(113)	(100)	13.0%
Administrative expenses	(30)	(32)	(6.3%)
Reinsurance commissions and profit-sharing	9	6	50.0%
Other	(4)	(1)	300.0%
Insurance result	**140**	**51**	**174.5%**
acquisition expenses ratio (including reinsurance commission)[1)]	18.0%	20.4%	(2.4) p.p.
administrative expense ratio [1)]	5.2%	6.9%	(1.7) p.p.
loss ratio [1)]	56.9%	64.4%	(7.5) p.p.
combined ratio (COR) [1)]	80.1%	91.8%	(11.7) p.p.

[1)] ratios calculated using net earned premium

Net insurance claims and benefits surged 10.8% which with earned premium up by 25.4% signifies deterioration in the loss ratio by 7.5 percentage points. The decline of the loss ratio was recorded chiefly in:

- motor insurance, as a result of the net earned premium growth being much higher than the growth in claims and benefits, despite the observed increase in average payout and remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident.
- insurance against fire and other damage to property, due to a much lower level of large claims.

These changes were partially offset by an increase in claims and benefits in the insurance of various financial risks.

(in millions of PLN)

The increase in the income from investments allocated to the corporate insurance segment was 107.1% y/y, which was dictated by the increasing EUR exchange rate to PLN by 0.9%, compared to a 4.6% depreciation in the corresponding period of the previous year.

Acquisition expenses in the corporate insurance segment increased by PLN 13 million, or 13.0% as compared to Q1 2017, mainly due to higher direct acquisition expenses. This was driven mainly by portfolio growth and a change in the sales channel mix (increased percentage of premiums originating from insurance offered by leasing companies in the portfolio).

Administrative expenses fell 6.3% which with earned premium up by 25.4% signifies a 1.7 p.p. improvement in the administrative expense ratio. The decline in the expense ratio resulted from lower costs of project activity and current activity achieved by continuing the cost discipline.

After Q1 2018, the corporate insurance segment earned an insurance profit of PLN 140 million, which is 174.5% more than in the corresponding period last year. The increase in insurance profit was driven mainly by the improved profitability of the portfolio of insurance against catastrophic and other material losses (much lower claims with high unit values) and motor insurance (in particular MOD).

14.2 Mass insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2018	1 January – 31 March 2017	% change
Motor TPL insurance	1,156	1,123	2.9%
MOD insurance	652	644	1.2%
Total motor insurance	1,808	1,767	2.3%
Insurance against fire and other damage to property	556	538	3.3%
Other liability insurance (groups 11, 12, 13)	140	132	6.1%
ADD and other insurance [1)]	225	216	4.2%
Total non-life insurance without motor insurance	921	886	3.9%
Total mass insurance segment (non-life insurance)	**2,729**	**2,653**	**2.9%**

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

In Q1 2018, in the mass insurance segment, gross written premium increased by PLN 76 million (+2.9% y/y) compared to the corresponding period of 2017. This growth resulted primarily from:

- an increase in gross written premium in motor insurance (+2.3% y/y) as the outcome of the higher average premium with a simultaneous decline in the number of insurance products;
- an increase in premium from insurance against fire and other damage to property (+3.3% y/y), including in apartment insurance and agricultural insurance (mainly pertaining to subsidized crops) even though the market is highly competitive – this resulted from the fact that sales in the spring campaign were launched earlier than in the previous year;
- higher written premium in the other TPL insurance group (+6.1% y/y) and ADD and other (4.2% y/y), mainly illness insurance and TPL insurance.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	2,729	2,653	2.9%
Net earned premium	2,445	2,178	12.3%
Investment income	134	94	42.6%
Net insurance claims and benefits	(1,532)	(1,292)	18.6%
Acquisition expenses	(451)	(415)	8.7%
Administrative expenses	(130)	(142)	(8.5%)
Reinsurance commissions and profit-sharing	(3)	(1)	200.0%
Other	(78)	(27)	188.9%
Insurance result	**385**	**395**	**(2.5%)**
acquisition expenses ratio (including reinsurance commission)[1)]	18.6%	19.1%	(0.5) p.p.
administrative expense ratio [1)]	5.3%	6.5%	(1.2) p.p.
loss ratio [1)]	62.7%	59.3%	3.4 p.p.
combined ratio (COR) [1)]	86.5%	84.9%	1.6 p.p.

[1)] ratios calculated using net earned premium

Net insurance claims and benefits in the 3-month period ended 31 March 2018 rose 18.6%, with net earned premium being 12.3% higher, translates into the loss ratio trending up by 3.4 percentage points.

This change resulted mainly from an increase in the loss ratio in the following insurance groups:

- motor TPL insurance, as a result of remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident (following a Supreme Court ruling). Where the effect of movement in the provision for general damages is eliminated, the high profitability was maintained both in the motor TPL insurance and motor MOD insurance.
- other physical losses, chiefly including subsidized crop insurance as an effect of the occurrence of above-average number of losses caused by the forces of nature, mainly negative effects of ground frost.

These adverse changes were partly offset by the decline in the loss ratio in the assistance and general liability insurance groups.

The increase in the income from investments allocated to the mass insurance segment was 42.6% y/y, which was dictated by the increasing EUR exchange rate to PLN by 0.9%, compared to a 4.6% depreciation in the corresponding period of the previous year.

In Q1 2018, acquisition expenses in the mass insurance segment reached PLN 451 million, up by PLN 36 million (+8.7%) from the corresponding period last year, which, considering the increase in the net earned premium by 12.3%, represented a 0.5 p.p. improvement in the acquisition expense ratio. The factor driving the change in the level of acquisition expenses was the higher level of direct acquisition expenses resulting from portfolio growth and a change in the mix of products and sales channels.

Decrease of administrative expenses by PLN 12 million (by 8.5%) compared to 3 months of 2017, resulted from lower costs in project activity and current activity concerning among others IT and marketing expenses.

The decline in operating profit in the mass insurance segment by PLN 10 million (-2.5%) compared to Q1 2017 was chiefly attributable to deterioration in profitability in motor TPL insurance (an increase in the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident) and to a lesser extent agricultural insurance (first reports of losses caused by ground frost) largely offset by the improved result in motor own damage insurance.

(in millions of PLN)

14.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 8 million (0.5%) higher than in the corresponding period last, which resulted primarily from:

- attracting further contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of March 2018, PZU Życie had approximately 1.5 million in force contracts of this type. A new rider to continued insurance was launched under the name "PZU Uraz ortopedyczny [PZU orthopedic injury]". In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland;
- active up-selling of riders in individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements.

At the same time, revenues from group protection products remained under pressure of increased departures from groups (work establishments) due to the legal reduction of the retirement age in Q4 2017.

Data from the profit and loss account – group and individually continued insurance	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	1,722	1,714	0.5%
Group insurance (periodic premium)	1,223	1,223	-
Individually continued insurance (periodic premium)	499	491	1.6%
Net earned premium	1,721	1,714	0.4%
Investment income	122	230	(47.0)%
Net insurance claims and benefits and movement in other net technical provisions	(1,314)	(1,452)	(9.5)%
Acquisition expenses	(84)	(82)	2.4%
Administrative expenses	(143)	(149)	(4.0)%
Other	(12)	(6)	100.0%
Insurance result	**290**	**255**	**13.7%**
Insurance result net of the conversion effect	**286**	**236**	**21.2%**
acquisition expense ratio [1)]	4.9%	4.8%	0.1 p.p.
administrative expense ratio [1)]	8.3%	8.7%	(0.4) p.p.
insurance margin net of the conversion effect [1)]	16.6%	13.8%	2.8 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income fell PLN 108 million mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 8.4% compared to a 11.9% increase in the corresponding period of last year. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 1,314 million, which signifies a y/y decline of PLN 138 million, or 9.5%. This change was driven by the following factor in particular:

- a decrease in technical provisions in Employee Pension Plans (PPE, a third pillar retirement security product) compared to an increase in the previous year, due to much lower investment results this year, coupled with a stable level of client contributions to and withdrawals from unit-linked insurance accounts;
- lower level of benefits this year in the protection products portfolio, also as a result of a lower incidence of deaths in the period under analysis;
- lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of "old" and "new" continuation both among the persons joining and remaining in the insured portfolio: in the "new" continuation, the unit cost of recognizing mathematical provisions for future benefit payments is lower.

(in millions of PLN)

These effects have been partially offset by the slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance exerted an influence on the size of the provisions. As a result of the conversion, provisions were released for PLN 4 million, some PLN 15 million less than in the corresponding period of 2017. Additionally, the level of medical benefits under health products is increasing following the dynamic growth of this portfolio and a unusually severe influenza season at the end of 2017 and the beginning of 2018.

Acquisition expenses in the group and individually continued insurance segment in the first 3 months of 2018 were PLN 84 million, increasing by PLN 2 million (2.4%) compared to the corresponding period of last year. The factor driving these expenses was the increasing remuneration for insurance intermediaries, especially for selling health products, and also the cost of communication mailed to clients, mainly offers of individual continuation riders.

In Q1 2018 administrative expenses amounted to PLN 143 million. The year-on-year decline by PLN 6 million (4.0%) was affected mainly by:

- lower remuneration for the performance of agency activities involving the participation in the administration of protection insurance agreements in the bancassurance channel – conversion of group contracts to individual contracts in this channel after the issue of KNF guidelines;
- 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 2018 climbed compared to the corresponding period of 2017 by PLN 35 million (13.7%) to PLN 290 million. Operating profit, excluding the effects of conversion of long-term contracts into renewable contracts in type P group insurance, improved by PLN 50 million y/y (21.2%) – mainly as a result of the continuing growth of the insurance portfolio, combined with an improvement of the loss ratio in protection products, among others due to the lower incidence of deaths in the period.

14.4 Individual insurance - life insurance

Gross written premium by payment type – individual insurance	1 January – 31 March 2018	1 January – 31 March 2017	% change
Periodic premium	156	154	1.3%
Single premium	190	254	(25.2)%
Total	**346**	**408**	**(15.2)%**

Decline y/y in gross written premium by PLN 62 million (15.2%) down to PLN 346 million as compared to Q1 2017 resulted chiefly from lower contributions to unit-linked accounts in unit-linked products offered jointly with Bank Millennium. At the same time, positive factors were also at play, such as:

- ongoing sales growth in Alior Bank of the unit-linked product launched at the outset of 2017;
- constantly rising level of premiums on protection products in endowments and term insurance – the level of sales exceeds the value of instances of reaching the endowment age, surrenders, lapses and deaths in the existing portfolio.

As of March PZU Życie offers it clients the ability to enroll in the new PZU JA PLUS insurance policy. This is the first life insurance policy available online. It is available through the konto.pzu.pl portal to logged in clients and through moje.pzu.pl to clients who are not logged in.

(in millions of PLN)

Data from the profit and loss account – individual insurance	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	346	408	(15.2)%
Net earned premium	348	410	(15.1)%
Investment income	15	180	(91.7)%
Net insurance claims and benefits and movement in other net technical provisions	(260)	(492)	(47.2)%
Acquisition expenses	(33)	(34)	(2.9)%
Administrative expenses	(18)	(15)	20.0%
Other	(1)	-	x
Insurance result	**51**	**49**	**4.1%**
acquisition expense ratio [1)]	9.5%	8.3%	1.2 p.p.
administrative expense ratio [1)]	5.2%	3.7%	1.5 p.p.
insurance margin [1)]	14.7%	12.0%	2.7 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it fell PLN 165 million y/y mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 8.4% compared to 11.9% in the corresponding period of last year. At the same time, the segment's income from the management fee charged on assets accumulated in unit-linked products increased by PLN 3 million y/y (following an increase in the assets). Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 260 million, reflecting an decrease in costs by PLN 232 million compared to the corresponding period of 2017. This was driven mainly by the negative investment result on most unit-linked product portfolios in this period, compared with high, positive results achieved last year. In the product offered in the Bank Millennium network, it additionally resulted from lower client contributions to the accounts. From the operational point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account.

In Q1 2018, acquisition expenses in the individual insurance segment stabilized at PLN 33 million. They are just PLN 1 million lower than the year before. Lower commissions on the sale of unit-linked products in the bancassurance channel (due to lower sales) were offset by the increasing costs of sales support and remuneration to intermediaries for selling protection products, in the latter case also in the bancassurance channel.

Administrative expenses during the 3 months of 2018 rose to PLN 18 million, or PLN 3 million compared to last year. This was influenced by the strategic investments in the exclusive sales network aimed at increasing sales in this segment and additionally an increasing level of remuneration for the handling of unit-linked products in the bancassurance channel (growing assets of such products).

The segment's operating result rose in comparison to last year by PLN 2 million to PLN 51 million mainly due to the increasing management fee in unit-linked products. Another factor contributing to the improvement in the profit margin was an increased share of protection products in revenues, since they generate much higher margins.

14.5 Bank segment

In Q1 2018, the banking activity segment generated PLN 794 million in operating profit (without amortization of intangible assets acquired as part of the acquisition transactions of the banks), which represented an increase of PLN 676 million compared to Q1 2017. Due to the consolidation of Pekao, one of the largest banks in the Central and Eastern Europe, all the items of the profit and loss account and of the statement of financial position in 2018 are much higher than they were in the previous year.

(in millions of PLN)

Banking activity (m PLN)	1 January – 31 March 2018	1 January – 31 March 2017	% change
Revenues and expenses on account of fees and commissions	590	125	372.0%
Investment income	2,275	680	234.6%
Interest expenses	(465)	(156)	198.1%
Administrative expenses	(1,240)	(471)	163.3%
Other	(366)	(60)	510.0%
Total	**794**	**118**	**572.9%**

The banking activity segment consists of the following groups: Pekao, from June 2017 (effect of settling the transaction and start of consolidation) and Alior Bank.

In 2018, Pekao contributed PLN 563 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao S.A. acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 231 million.

Investment income, which increased to PLN 2,275 million in Q1 2018 (or 234.6% y/y), is the key component of the segment's revenue. Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges. In Q1 2018, high sales of credit products were recorded in both Pekao and Alior Bank, among others as a result of good business conditions and a low interest rate environment.

Banks increased their net interest income (interest income less interest expenses) mainly be increasing the volume of loans to their customers. At the end of Q1 2018, the customer loan portfolio in both banks increased by 0.2% compared to the end of 2017.

The profitability of banks in the PZU Group in Q1 2018 was measured by the net interest margin ratio and was 2.8% for Pekao and 4.5% for Alior Bank. The difference in these ratio levels is mainly due to the structure of loan receivable portfolio (mortgage loans constitute more than 40% of Pekao's portfolio, while 50% of Alior Bank's portfolio are consumer loans and working capital loans.

The net fee and commission income in the banking activity segment was PLN 590 million, increasing by PLN 465 million y/y. In addition to the consolidation of the newly-acquired Bank Pekao, the improvement in this line item was boosted, as in the case of net interest income, by an increase in the sales of loans. Administrative expenses in the segment amounted to PLN 1,240 million, with Pekao contributing PLN 828 million and Alior Bank PLN 412 million. In Q1 2018, Alior Bank reduced its personnel costs, which resulted from, among others, lower current operating expenses and project-related expenses.

Other contributors to the operating result included also other operating income and expenses, which consist mainly of BFG charges (PLN 230 million) and levy on other financial institutions (PLN 188 million).

As a result of the above, the Cost/Income ratio was 44% for both banks in aggregate. On a separate basis, the ratio is 45% for Pekao and 41% for Alior Bank.[4]

14.6 Investments

Net investment result and interest expenses

In Q1 2018 the net investment result[5], including interest expenses, was PLN 1,975 million, compared to PLN 1,507 million in the corresponding period of 2017 (up by 31.1%). This higher result was driven largely by the commencement of Bank Pekao's consolidation in June 2018.

[4] Cost/Income ratio – ratio of administrative expenses and sum of operating income, excluding: the BFG charge, the levy on other financial institutions and the movement in allowances for expected credit losses and impairment losses on financial instruments

After the contribution of banking activity is excluded, the net investment result after factoring in interest expenses in Q1 2018 was PLN 150 million and was PLN 810 million lower than in the previous year. The following factors affected the income:

- softer performance on listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 8.4% in Q1 2018 compared to 11.9% growth in the corresponding period of the previous year;
- investment income in the portfolio of assets to cover investment products down PLN 300 million y/y, even though it does not affect the PZU Group's overall net result;
- negative impact exerted by the foreign exchange differences on own debt securities in conjunction with the depreciation of the PLN versus EUR following appreciation in the comparable period, partially offset by stronger performance of investments denominated in EUR;
- better performance on interest-bearing financial instruments driven chiefly by the following:
  - higher valuation of Polish treasury bonds (tapering of the yield);
  - gains on foreign exchange differences in the FX portfolios (held chiefly to secure the financial liabilities by virtue of the issue of own debt securities).

Operating income of the investment segment (based exclusively on external transactions) were PLN 404 million less than in the corresponding period of 2017, primarily due to the worse conditions on the Warsaw Stock Exchange.

As at the end of March 2018, the value of the PZU Group's investment portfolio[6], excluding the impact of banking activity, was PLN 49,794 million compared to PLN 46,164 million as at the end of 2017.

The Group runs its investment activity in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability. Debt treasury securities accounted for over 60% of the investment portfolio, net of the impact of banking activity, both as at 30 March 2018 and 31 December 2017.

In 2018, 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. The higher level of treasury debt market instruments is associated with funding the advantageous situation on the Polish debt market.

The high percentage of reverse repo transactions and term deposits with credit institutions was caused, among others, by entering into transactions on the interbank market to enhance the return on investing activity and to adjust the investment portfolios to their benchmarks.

Growth of the investment portfolio was caused by increasing receipts from premiums due to business growth and a declining balance of funds recognized as receivables.

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[5] Net investment result includes: net investment income, net result on realization of financial instruments and investments, movement in allowances for expected credit losses and impairment losses on financial instruments and net movement in fair value of assets and liabilities measured at fair value.

[6] 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 repurchase transactions.

(in millions of PLN)

Structure of the investment portfolio

Investment portfolio	31 March 2018	31 December 2017
Equity instruments, including:	6,319	6,865
Equity instruments - quoted	1,958	2,483
Equity instruments - unquoted	4,361	4,381
Debt instruments, including:	41,112	36,688
Debt market instruments - treasury	32,250	29,996
Debt market instruments - non-treasury	1,659	1,673
Reverse repo transactions and term deposits with credit institutions	3,395	1,322
Loans	3,808	3,698
Investment property	2,554	2,521
Derivatives (net value)	106	90
Liabilities on account of repurchase transactions	(297)	-
Total investment portfolio	**49,794**	**46,164**

14.7 Pension insurance

Pension insurance	1 January – 31 March 2018	1 January – 31 March 2017	% change
Investment income	2	1	100.0%
Other income	36	28	28.6%
Income	**38**	**29**	**31.0%**
Administrative expenses	(8)	(13)	(38.5)%
Other	(2)	(1)	100.0%
Operating result	**28**	**15**	**86.7%**

Revenues on core business in the pension insurance segment for Q1 2018 and Q1 2017 were PLN 38 million and PLN 29 million, respectively. The PLN 9 million (+31.0%) change was mainly due to a refund from the Insurance Guarantee Fund (PLN 6 million) and higher income from the management of the "PZU Złota Jesień" open-end pension fund.

PTE PZU's administrative expenses dropped by PLN 5 million y/y (-38.5%). The main contributing factor were the surcharges for the Insurance Guarantee Fund in 2017 due to the rapid growth of the net assets of the "PZU Złota Jesień" open-end pension fund.

At the end of Q1 2018 the total net asset value of all OFEs on the market was PLN 165.7 billion, down 1.1% from the end of March 2017.

In the same period OFE PZU's assets fell by 1.8% to PLN 21.3 billion. In the period from January to March 2018, ZUS transferred PLN 80.5 million in gross contributions with interest to OFE PZU. OFE PZU transferred PLN 361.9 million to ZUS in what is known as the "slide". OFE PZU's rate of return in the period of 3 months of 2018 was -7.3%.

(in millions of PLN)

14.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	375	315	19.0%
Net earned premium	340	285	19.3%
Investment income	3	8	(62.5%)
Net insurance claims and benefits	(211)	(185)	14.1%
Acquisition expenses	(75)	(64)	17.2%
Administrative expenses	(29)	(27)	7.4%
Other	1	-	0.0%
Insurance result	**29**	**17**	**70.6%**
EUR exchange rate in PLN	4.1784	4.2891	(2.6%)
acquisition expense ratio [1)]	22.1%	22.5%	(0.4 p.p.)
administrative expense ratio [1)]	8.5%	9.5%	(1.0 p.p.)

[1)] Ratios calculated using net earned premium

As part of the Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is provided by: Lietuvos Draudimas AB – leader of the Lithuanian market, AAS Balta – in Latvia and the Lietuvos Draudimas AB branch in Estonia. Life insurance is sold by UAB PZU Lietuva Gyvybes Draudimas in Lithuania.

The Lithuanian non-life insurance market share at the end of March 2018 was 28.3%; the life insurance market share was 6.1%. At the end of 2017, the share in the Latvian market was 27.7%, while the share in the Estonian non-life insurance market was 15.6%.

On account of its activity in the Baltic states, the PZU Group generated in Q1 2018 an insurance result of PLN 29 million compared with PLN 17 million in the corresponding period last year.

This result was driven by the following factors:

- an increase in gross written premium. It amounted to PLN 375 million, up PLN 60 million compared to the first quarter of the previous year. Non-life insurance recorded an increase by PLN 59 million, in particular in motor insurance driven by a considerable growth of insurance sales to new clients. In life insurance, written premium increased by PLN 1 million (or 7.1%). The rate of growth in gross written premium in the Baltic states segment stood at 19.0%;
- decrease in investment income. In Q1 2018, the result on investments reached PLN 3 million and was PLN 5 million lower than in the corresponding period of the previous year;
- increase the value of net claims and benefits. They amounted to PLN 211 million and were 14.1% higher than in the first quarter of the previous year. The loss ratio in non-life insurance stood at 62.5%, down 1.1 p.p. from the corresponding period of the previous year: this resulted from good weather conditions and a lower frequency of mass claims. In life insurance, the value of benefits was PLN 8 million, up PLN 4 million compared to Q1 2017, in particular due to lower growth of provisions for client risk;
- higher acquisition expenses. They segment’s expenditures for this purpose were at PLN 75 million, up 17.2% from the corresponding period of the previous year. However, the acquisition expense ratio calculated based on net earned premium declined 0.4 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;
- higher administrative expenses. They were PLN 29 million, increasing by 7.4% from the corresponding period last year. At the same time, a decrease in the administrative expense ratio was recorded; it was 8.5%, down 0.9 p.p. relative to the corresponding period of the previous year.

(in millions of PLN)

14.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 31 March 2018	1 January – 31 March 2017	% change
Gross written premiums	52	52	0.0%
Net earned premium	32	28	14.3%
Investment income	2	4	(50.0%)
Net insurance claims and benefits	(13)	(10)	30.0%
Acquisition expenses	(19)	(16)	18.8%
Administrative expenses	(5)	(6)	(16.7%)
Other	6	6	0.0%
Insurance result	**3**	**6**	**(50.0%)**
exchange rate UAH/PLN	0.1257	0.1484	(15.3%)
acquisition expense ratio [1)]	59.4%	57.1%	2.3 p.p.
administrative expense ratio [1)]	15.6%	21.4%	(5.8 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 the end of 2017 was 3.2% and the life insurance market share was 10.3%, ranking the companies 5th and 4th, respectively, on the market according to the Insurance TOP quarterly[7].

The Ukraine Segment closed Q1 2018 with operating profit of PLN 3 million, compared to PLN 6 million in the corresponding period of the previous year.

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

- absence of growth of gross written premium. It was, similarly as in Q1 last year, PLN 52 million. Premium in non-life insurance fell by PLN 2 million and rose by PLN 2 million in life insurance. Gross written premium in the functional currency expanded by 18.6% y/y (i.e. UAH 64.6 million);
- lower investment income. It reached PLN 2 million and was 50.0% lower than in the corresponding period of last year;
- increase in costs of claims and benefits. These reached PLN 13 million and were 30.0% lower than in Q1 2017;
- higher acquisition expenses. They stood at PLN 19 million compared to PLN 16 million in Q1 2017. The most significant increase (i.e. by PLN 2 million) was in life insurance due to the higher contribution of new sales in the portfolio;
- lower administrative expenses. They were PLN 5 million vis-à-vis PLN 6 million in the corresponding period of the previous year. The segment's administrative expense ratio went down 5.8 p.p. to 15.6%.

14.10 Investment contracts

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

[7] Insurance TOP #1 2018

(in millions of PLN)

The results of the investment contracts segment are presented according to PAS, which means that they include, among other things, gross written premium, benefits 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 2018**	**1 January – 31 March 2017**	**% change**
Periodic premium	12	13	(7.7)%
Single premium	-	-	x
Total	**12**	**13**	**(7.7)%**

Gross written premium generated on investment contracts in Q1 2018 decreased by PLN 1 million (-7.7%) compared to the corresponding period in 2017 to PLN 12 million. The changes in gross written premium were caused mainly by modification of the IKZE product at the end of 2017, which allowed newly-signed contracts to be signed as insurance contracts and transferred to the individual insurance segment.

Data from the profit and loss account – investment contracts	**1 January – 31 March 2018**	**1 January – 31 March 2017**	**% change**
Gross written premiums	12	13	(7.7)%
Group insurance	1	1	-
Individual insurance	11	12	(8.3)%
Net earned premium	12	13	(7.7)%
Investment income	(7)	19	x
Net insurance claims and benefits and movement in other net technical provisions	(2)	(29)	(93.1)%
Acquisition expenses	-	-	x
Administrative expenses	(2)	(2)	-
Other	-	-	x
Operating result	**1**	**1**	**-**
operating profit margin [1)]	8.3%	7.7%	0.6 p.p.

Result on investing activity in the investment contracts segment fell PLN 26 million vis-à-vis the previous year, mainly as a result of a worse rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 27 million y/y to PLN 2 million due to the negative investment income in unit-linked products in this segment in the current period, as compared to the high positive performance in the previous year.

No active contract acquisition campaign was carried out in this segment and therefore no such costs were incurred.

Administrative expenses were PLN 2 million remaining flat year on year.

The operating result of the segment was PLN 1 million, the same as in the first 3 months of 2017.

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 treated as a non-recurring event was lower in Q1 2018 by PLN 15 million in comparison with the comparable period of the previous year. In Q1 2018, a non-recurring effect of remeasurement of provisions was recognized, mainly in motor insurance, for claims for general damages due to vegetative state, in the amount of PLN 148 million.

16. Macroeconomic environment

Main trends in the economy

According to the revised estimate of the Central Statistical Office, the constant price GDP in Q4 2017 increased by 4.9% y/y compared to 5.2% y/y in the previous quarter. Economic growth in this period was driven entirely by the increase in domestic demand. Consumption of households (2.5 p.p.) and investments (1.4 p.p.) were the greatest contributors to real GDP growth. Contribution of net exports to GDP growth in Q4 was zero.

Data from Q1 2018 indicate that the economic growth rate remained close to 5.0% y/y in real terms. In that period, the real growth of industrial output sold slowed down to 5.6% y/y, but the construction and assembly output in Q1 of this year increased 26.1% in real terms from the previous year, mainly due to the execution of infrastructural investment projects. At the same time, retail sales in constant prices increased by 8.1% y/y (compared to 7.5% y/y in Q4 last year). Taking into account the good situation on the labor market, a considerable growth in real income and a high level of consumer economic indicators, one can expect that the annual growth of household consumption should not be lower than that observed in Q4 last year (5.0% y/y).

The lower growth of industrial output sold compared to the previous quarter and the recent declines in economic indicators reflect the similar processes in Germany and in the Euro zone in that period. Nevertheless, the indicators of business conditions remain at relatively high levels, pointing to above-average GDP growth. Economic growth is additionally supported by the dynamic increase in construction industry output.

Labor market and consumption

In Q1 2018, demand for labor remained high and the average monthly headcount in the enterprise sector continued its strong growth. It rose by 3.7% in comparison to Q1 2017. Companies continue to have problems filling their vacancies.

The registered unemployment rate decreased in March this year to 6.6% and was 1.4 p.p. lower than in the previous year. The unemployment rate according to BAEL continues its downward trend (4.5% in Q4 2017).

After clear, continuing growth in 2017, the growth of average monthly gross salary in enterprises slightly dropped in Q1 to 7.1% y/y compared to 7.6% y/y in Q4. In real terms, however, the increase in the average salary in enterprises in this period was slightly higher than in the previous quarter (5.6% y/y compared to 5.5% y/y). Solid growth of real income in very good labor market environment contributed to the optimism of consumers, which is confirmed by the very high level of consumer economic indicators. As a result, the average monthly growth of retail sales in the first quarter was the highest in six years.

Monetary policy, interest rates and inflation

In Q1 2018, inflation measured by the annual CPI was on average 1.5% y/y, proving to be slightly lower than that in Q4 2017 (2.2% y/y). CPI fell mainly because of a much smaller increase in the prices of food and non-alcoholic beverages than last year, a deeper drop in fuel prices than last year and a drop in the prices of energy products as compared to an increase last year. However, the net core inflation rate (excluding food and energy prices) also decreased slightly to 0.8% y/y from 0.9% y/y in Q4 last year. Therefore, the developments in net inflation have not confirmed the build-up of the inflationary pressure. This was also not observed among manufacturers. The annual price index of industrial output sold in Q1 was significantly lower than in the preceding quarter, while the PMI survey in the processing industry indicated mitigation of the cost pressure, which however remained at a relatively high level. Nevertheless, inflation (CPI) is expected to increase over the next two quarters.

The interest rates of the National Bank of Poland remained unchanged in Q1 and in April 2018. The reference interest rate has remained at 1.5% since March 2015. According to the Monetary Policy Council, the current level of interest rates supports the maintenance of the Polish economy on a sustainable growth path and enables it to maintain the macroeconomic equilibrium.

Public finance

The Central Statistical Office (GUS) announced that in 2017 the deficit of the central and local government institutions sector was PLN 33.0 billion, or 1.7% of GDP, while the sector's debt amounted to PLN 1,003.4 billion, or 50.6% of GDP. It is assumed in Poland's Long-Term Financial Plan for 2018-2021 that the deficit and debt of the central and local government institutions sector will decrease by 2021 to 0.7% and 46% of GDP, respectively. To reach this objective, further efforts aimed at sealing the tax system in order to help reduce the tax gap by approx. PLN 22.5 billion in 2018-2021 have been undertaken.

The surplus of the state budget after March this year amounted to PLN 3.1 billion. It was caused by particularly high PIT revenues due to a good situation on the labor market and high tax payments from sole proprietors. The situation of the state budget is also supported by the fact that expenditures were lower than those in the previous year.

At the end of March, the borrowing needs for 2018 were financed at about 50%.

Situation on financial markets

In Q1 2018, we observed an increase in the yields of 10-year treasury bonds in the USA and Germany. In the USA, the yields rose from about 2.41% to approximately 2.74%, and in Germany they closed the quarter at 0.49%, which was slightly above the level at the end of 2017 (0.42%). In both cases, however, they reached their highest levels by mid-February. In the USA, 10-year bond yields reached 2.95%, driven by good economic activity reports, looser fiscal policy and stronger expectations for interest rate increases by the Fed. After this period, the yields stabilized and then started to decline slightly. This was mainly driven by concerns about the escalation of the trade conflict between the USA and China and the possible slowdown in economic growth. In Germany, the increase in 10-year treasury bond yields lasted until early February, when they reached 0.80% on the back of good economic activity reports, which increased the likelihood of the ECB withdrawing the "quantitative easing" and gradually tightening its monetary policy. However, yields on German bonds started to decrease thereafter as information on the slowdown in GDP growth in Q1 and global uncertainty about potential trade and geopolitical conflicts increased.

Following these markets, the yield on Polish 10-year treasury bonds reached temporarily up to 3.60% at the end of January, which could have been supported by the good information from the Polish economy. In February and March, however, this trend reversed and the yield on Polish 10-year treasury bonds fell to 3.17% at the end of the first quarter - below the level at the end of 2017 (3.30%). This was due to several contributing factors. First, the expected scale of interest rate increases decreased in light of much lower than expected inflation readings and the consistently easy rhetoric of the Monetary Policy Council. At the same time, Poland's credit risk decreased in view of the still very good fiscal standing and the reduction of tensions between Poland and the European Commission. At the end of Q1 2018, the difference between the yields on Polish and German 10-year treasury securities increased to 267 basis points (from 288 basis points at the end of 2017). In turn, yields on Polish 1-year treasury securities decreased in Q1 by approximately 30 basis points to 1.34%.

The euro to US dollar exchange rate increased from 1.20 at the end of 2017 to 1.23 at the end of March 2018. In Q1 2018, the Polish currency depreciated versus the euro (EURPLN) by 0.9%, while at the same time appreciated against the US dollar (USDPLN) by 1.9%. Additionally, the zloty depreciated by 0.6% against the Swiss franc.

The first quarter of 2018 was characterized by high volatility on the stock markets. In January, we saw a strong rise in stock market indices as markets were discounting the positive impact of the US tax reform on the future profits of US companies. However, global markets fell the next two months. This was due to concerns about the faster than expected pace of monetary tightening in the USA as well as the risk of increased protectionism in world trade. The American S&P 500 index fell by 1.23% in the first quarter and the German DAX by 6.4%.

The domestic WIG and WIG20 indices performed poorly in comparison to foreign competitors, losing 8.4% and 10.2%, respectively, in Q1 2018. This was caused by increased uncertainty on global markets and dwindling expectations of interest rate increases, which affected the valuations of banks, over-represented in these indices.

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

PZU did not publish any standalone or consolidated result forecasts.

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

Apart from events of a catastrophic nature (such as floods, cyclone, drought), the main factors which can affect the standing of the PZU Group in subsequent quarters of 2018, include:

- difficulties in filling vacancies and salary pressures due to the currently low unemployment levels;
- possible slowdown in economic growth in Poland, and consequently:
  - cuts in household and corporate spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for other non-life insurance products;
  - a poorer financial standing of companies would result in an elevated credit risk (in particular in the banking segment) and a higher loss ratio on the financial insurance portfolio;
  - Unfavorable situation on the capital markets resulting in: declining value of the investment portfolio, assets under management (TFI, OFE) and lower attractiveness of products, especially unit-linked products;
  - an increase in bond yields, resulting in lower valuation of coupon-based securities;
- judicial decisions of the Supreme Courts regarding the amounts of monetary compensation for general damages disbursed from third-party liability insurance of motor vehicle owners to relatives of the injured person for harm resulting from a breach of the relative's personal rights (impact on the mass and corporate insurance segments);
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro (impact on the mass and corporate insurance segments);
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- administrative decisions issued by the Office for Competition and Consumer Protection (UOKiK) and social pressures on the prices of motor insurance products forcing insurance companies to modify their pricing policy (impact on the mass and corporate insurance segments);
- changes in the current mortality, fertility and morbidity levels (impact on the group and individually continued insurance segment);
- further changes in the structure of insureds after the change of the legal retirement age (impact on the group and individually continued insurance segment);
- continued pressure on the prices of group insurance products. A price war is underway along with a war for the possession of clients and their data, resulting in lowering both the insurers' margins and the quality of the products offered to clients accompanied by the creation of barriers to entry and exit for clients at independent intermediaries (influence on the segment of group and individually continued insurance);
- changes in trends and clients' behaviors toward the customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to rapidly adapt to these expectations;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- continuation of changes in the investment insurance and life and endowment insurance markets resulting from the adjustment, as of 1 January 2018, of the PRIIP (Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products);
- entry into force of the insurance distribution act on 1 October 2018, so-called Insurance Distribution Directive: Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.
- insurance undertakings adapting to the EU General Data Protection Regulation, i.e. GDPR: Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with

regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC);

- pension system reform and results of the statutory review of the pension system and associated legal risk, in particular the assumed transfer of 75% of the funds from OFE to newly created IRA/IRSA and 25% of the funds from OFE to the Demographic Reserve Fund (impact on the pension segment);
- preparation of pension fund companies for organizational and legal changes arising from transformation of open-end pension funds into mutual funds, and the companies into mutual fund companies (impact on the pension segment).

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

In the 3-month period ended 31 March 2018, neither PZU nor its subsidiaries made any significant issues, redemptions or repayments of debt securities or equity securities.

20. Default or breach of material provisions of loan agreements

During the 3-month period ended 31 March 2018, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 3-month period ended 31 March 2018, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

22. Dividends

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

On 15 May 2018 the PZU Management Board decided to file a motion with the Ordinary Shareholder Meeting of PZU to distribute PZU's net profit for the year ended 31 December 2017 in the amount of PLN 2,434 million as follows:

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

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 litigation are of a typical and repetitive nature and usually no particular case is of material importance to the PZU Group.

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

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

During the 3-month period ended 31 March 2018 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described below.

As at 31 March 2018, the value of the subject matter of the litigation in all the 200,430 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 7,409 million. The amount includes PLN 4,659 million of liabilities and PLN 2,750 million of receivables of the PZU Group companies.

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

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

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

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

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

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

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

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

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

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

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2018, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

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

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

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

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

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

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

On 27 March 2015, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. By judgment of 6 December 2016, following an appeal of the UOKiK President, the Appellate Court in Warsaw repealed the judgment issued by the Regional Court in Warsaw and referred the case for re-examination. On 31 July 2017, the Regional Court issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. The judgment is not final and on 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. On 2 November 2017, PZU filed a reply to the appeal of the UOKiK President.

PZU established a provision for this penalty in the amount of PLN 57 million as at 31 March 2018, 31 December 2017 and 31 March 2017.

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

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

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

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

Since the fine has already been paid by PZU Życie in 2015, no additional provision for this purpose had to be maintained.

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

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

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

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

(in millions of PLN)

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

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

24. Other information

24.1 Evaluation of the PZU Group companies' standing by rating agencies

Issuer rating

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

Current rating

The PZU Group features a high level of security in its business. This is corroborated both by its high solvency ratios and by the A- investment grade rating awarded by S&P Global Ratings.

On 27 October 2017, the S&P agency increased the PZU's rating outlook from negative to stable. At the same time, PZU's financial strength rating stayed at A-. This is one of the highest possible ratings for a Polish company to receive. Since 2014, PZU's rating has remained one notch above Poland's sovereign rating for foreign currency-denominated debt

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

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

Poland's credit rating

On 13 April 2018, S&P raised Poland's rating outlook from stable to positive, while affirming its previous ratings at BBB+/A-2 respectively for long- and short-term liabilities in foreign currencies and at A-/A-2 respectively for long- and short-term liabilities in the local currency.

(in millions of PLN)

24.2 Related party transactions

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

In the 3-month period ended 31 March 2018, neither PZU nor its subsidiaries executed any single or multiple transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on an arm's length principle.

24.2.2. Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2018 and as at 31 March 2018		1 January – 31 December 2017 and as at 31 December 2017		1 January – 31 March 2017 and as at 31 March 2017	
	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]
Gross written premium						
in non-life insurance	-	2	-	4	-	1
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	100 [3]	-	-
Costs	-	-	-	2	-	-
Receivables		1		-	-	1
Liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

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

24.3 KNF Office inspections in PZU and PZU Życie

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

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

24.4 Situation in Ukraine

In Q1 2018, Ukraine recorded slight indications of stabilizing economic conditions. As at 31 March 2018, real GDP increased 2.3% over the corresponding period in 2017. The inflation reached 3.5%, compared with 3.9% in Q1 2017. Retail trade turnover increased (by 7.6% vs. Q1 2017), and industrial production grew by 2.4% compared to the corresponding period of 2017. In Q1 2018, exports of goods from Ukraine reached USD 11.4 billion, which is 10% more than in the corresponding quarter of the previous year. Imports amounted to USD 12.6 billion, or 14% more than in Q1 2017. The National Bank of Ukraine recorded a 5.9% increase in foreign currency reserves as compared to the corresponding period of 2017. In January 2018, the minimum salary was increased by 16.3% from UAH 3,200 to UAH 3,723.

The factors slowing down economic growth and exerting a negative influence on the country's stability included:

- Internal factors: - such as insufficient speed of reforms (privatization, land trading, the law on anti-corruption courts), low credit activity of commercial banks, scarcity of energy resources, improvement of competition on internal markets as a result of increased imports from EU countries and increasing difficulties in obtaining qualified employees on the labor market;
- External factors - such as threats to national security (possible escalation of the military conflict in the east part of the country), insufficient external financing and restricted access to international capital markets, reductions or delays in investment plans by foreign investors due to macro- and microeconomic uncertainty.

As a result of the above, individuals and corporations had a moderate level of confidence in the financial and insurance sector.

The Management Board of PZU, in cooperation with the management of PZU Ukraine and PZU Ukraine Life, continuously monitors external risks and changes in Ukraine's legal regulations. Response scenarios to market changes and control mechanisms have been prepared.

PZU intends to continue and develop the insurance activity on the local market. The Management Board of PZU assumes that further activities of PZU Ukraine and PZU Ukraine Life will be continued in accordance with the assumptions. The economic instability in Ukraine related to the armed conflict, significant threat of cyber attacks and the presidential and parliamentary elections in 2019 may adversely affect the future conditions on the insurance market as well as the financial standing and performance of PZU Ukraine and PZU Ukraine Life, to the extent that cannot be currently reliably modeled. These consolidated financial statements reflect the PZU Management Board's current assessment in this respect.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2018	31 December 2017	31 March 2017 (restated)[1)]
I. Intangible assets, including:	334,099	345,437	362,263
- goodwill	-	-	-
II. Investments	37,237,561	36,575,984	32,522,579
1. Real property	365,369	369,702	386,319
2. Investments in related parties, of which:	16,371,314	16,793,206	9,910,669
- investments in related parties measured by the equity method	16,028,865	15,980,453	9,522,391
3. Other financial investments	20,500,878	19,413,076	22,225,591
4. Deposits with ceding enterprises	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,698,639	2,315,241	2,827,623
1. Receivables on direct insurance	1,720,868	1,822,002	1,730,180
1.1. From related parties	2,169	11,297	486
1.2. From other entities	1,718,699	1,810,705	1,729,694
2. Reinsurance receivables	234,308	152,966	141,161
2.1. From related parties	136,162	104,137	70,324
2.2. From other entities	98,146	48,829	70,837
3. Other receivables	743,463	340,273	956,282
3.1. Receivables from the state budget	26,206	29,518	92,280
3.2. Other receivables	717,256	310,755	864,002
a) from related parties	39,373	18,910	14,908
b) from other entities	677,884	291,845	849,094
V. Other assets	1,108,816	1,100,090	706,913
1. Property, plant and equipment	110,446	117,938	113,374
2. Cash	998,370	982,152	593,539
3. Other assets	-	-	-
VI. Prepayments and accruals	2,539,050	2,051,608	2,687,518
1. Deferred tax assets	-	-	-
2. Deferred acquisition costs	1,464,975	1,285,837	1,390,141
3. Accrued interest and rents	-	-	-
4. Other prepayments and accruals	1,074,075	765,771	1,297,377
VII. Unpaid share capital	-	-	-
VIII. Treasury shares	-	-	-
Total assets	**43,918,165**	**42,388,360**	**39,106,896**

[1)] Information on restatement of data as at 31 March 2017 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	31 March 2018	31 December 2017	31 March 2017 (restated)[1)]
I. Equity	13,890,516	13,583,288	12,982,897
1. Share capital	86,352	86,352	86,352
2. Supplementary capital	5,258,695	5,258,449	4,889,194
3. Revaluation reserve	5,873,192	5,824,295	6,076,645
4. Other reserve capital	-	-	-
5. Retained earnings (losses)	2,414,193	(19,682)	1,573,269
6. Net profit (loss)	258,084	2,433,874	357,437
7. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated liabilities	2,257,423	2,284,674	-
III. Technical provisions	22,078,880	21,235,301	20,777,811
IV. Reinsurers' share in technical provisions (negative figure)	(1,103,772)	(1,158,963)	(941,025)
V. Estimated salvage and subrogation (negative figure)	(99,401)	(107,710)	(101,801)
1. Gross estimated salvage and subrogation	(100,688)	(108,923)	(102,581)
2. Reinsurers' share in estimated salvage and subrogation	1,287	1,213	780
VI. Other provisions	599,220	476,206	592,492
1. Provisions for pension benefits and other compulsory employee benefits	52,545	42,336	54,235
2. Deferred tax liability	460,452	337,606	464,253
3. Other provisions	86,224	96,264	74,004
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	5,437,887	5,146,129	4,865,384
1. Liabilities on direct insurance	377,093	415,429	396,819
1.1. To related parties	2,151	3,999	1,007
1.2. To other entities	374,942	411,430	395,812
2. Reinsurance liabilities	212,401	121,981	186,843
2.1. To related parties	22,616	9,713	10,118
2.2. To other entities	189,785	112,268	176,725
3. Liabilities on the issue of own debt securities and drawn loans	3,605,046	3,558,260	3,605,913
4. Liabilities to credit institutions	108,592	-	-
5. Other liabilities	994,392	933,872	562,508
5.1. Liabilities to the state budget	36,379	110,011	21,318
5.2. Other liabilities	958,014	823,861	541,190
a) to related parties	18,152	13,086	36,676
b) to other entities	939,862	810,775	504,514
6. Special-purpose funds	140,362	116,587	113,301
IX. Prepayments and accruals	857,412	929,435	931,137
1. Accrued expenses	816,484	882,458	895,097
2. Negative goodwill	-	-	-
3. Deferred income	40,928	46,977	36,040
Total equity and liabilities	**43,918,165**	**42,388,360**	**39,106,896**

[1)] Information on restatement of data as at 31 March 2017 is presented in section 10.

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2018	31 December 2017	31 March 2017 (restated)[1]
Book value	13,890,516	13,583,288	12,982,897
Number of shares	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	16.09	15.73	15.03
Diluted number of shares	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	16.09	15.73	15.03

[1] Information on restatement of data as at 31 March 2017 is presented in section 10.

2. Interim statement of off-balance sheet line items

Off-balance sheet items	**31 March 2018**	**31 December 2017**	**31 March 2017**
1. Contingent receivables, including:	3,607,136	4,615,722	6,839,240
1.1. Guarantees and sureties received	8,071	2,225	3,243
1.2. Other [1]	3,599,064	4,613,497	6,835,997
2. Contingent liabilities, including:	4,479,348	4,544,743	4,687,444
2.1. Guarantees and sureties given	3,618,007	3,574,120	3,627,404
2.2. Accepted and endorsed bills of exchange	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-	-
5. Third party assets not recognized in assets	115,923	116,361	115,590
6. Other off-balance sheet line items	-	-	-
Total off-balance sheet line items	**8,202,407**	**9,276,826**	**11,642,274**

[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 revenue account of non-life insurance

Revenue account of non-life insurance	1 January – 31 March 2018	1 January – 31 March 2017
I. Premium income (1-2-3+4)	2,903,926	2,554,662
1. Gross written premium	3,769,269	3,696,131
2. Reinsurers' share in gross written premium	40,354	78,826
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	752,947	1,043,352
4. Reinsurers' share in the movement in provision for unearned premiums	(72,042)	(19,291)
II. Net investment income (including costs) transferred from the general profit and loss account	63,193	64,200
III. Other net technical income	54,906	93,841
IV. Claims and benefits (1+2)	1,780,976	1,541,197
1. Net claims and benefits paid	1,698,955	1,583,436
1.1. Gross claims and benefits paid	1,771,567	1,624,361
1.2. Reinsurers' share in claims and benefits paid	72,611	40,925
2. Movement in provision for outstanding claims and benefits, net of reinsurance	82,021	(42,239)
2.1. Movement in provision for outstanding claims and benefits, gross	98,124	(3,280)
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	16,103	38,959
V. Movement in other technical provisions, net of reinsurance	-	-
1. Movement in other technical provisions, gross	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-
VI. Net bonuses and discounts with the movement in provisions	446	(168)
VII. Insurance activity expenses	717,069	659,652
1. Acquisition expenses, including:	577,875	502,458
- movement in deferred acquisition costs	(179,138)	(181,515)
2. Administrative expenses	145,151	163,145
3. Reinsurance commissions and profit participation	5,957	5,951
VIII. Other net technical charges	128,270	115,330
IX. Movement in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**395,264**	**396,692**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 January – 31 March 2018	1 January – 31 March 2017 (restated)[1]
I. Technical result of non-life insurance or life insurance	395,264	396,692
II. Investment income	198,759	181,637
1. Investment income on real estate	1,664	1,488
2. Investment income from related parties	1,811	(1,038)
2.1. on ownership interests or shares	-	-
2.2. on borrowings and debt securities	1,793	(1,038)
2.3. on other investments	18	-
3. Other financial investment income	107,575	30,516
3.1. on ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	2,487	2,829
3.2. on debt securities and other fixed income securities	89,144	46,280
3.3. on term deposits with credit institutions	2,581	(6,258)
3.4. on other investments	13,363	(12,335)
4. Gain on revaluation of investments	795	1,216
5. Gain on realization of investments	86,914	149,455
III. Unrealized investment gains	120,921	173,350
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	76,756	163,489
1. Real estate maintenance expenses	788	1,243
2. Other investment activity expenses	9,376	4,455
3. Loss on revaluation of investments	2,703	178
4. Loss on realization of investments	63,889	157,613
VI. Unrealized investment losses	123,374	132,843
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	63,193	64,200
VIII. Other operating income	59,765	238,627
IX. Other operating expenses	179,821	170,490
X. Operating profit (loss)	331,565	459,284
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	5,481	(7,214)
XIV. Profit (loss) before tax	337,046	452,070
XV. Income tax	78,962	94,633
a) current part	(42,695)	(61,716)
b) deferred part	121,657	156,349
XVI. Other compulsory reductions in profit (increases in losses)	-	-
XVII. Net profit (loss)	**258,084**	**357,437**

	1 January – 31 March 2018	1 January – 31 March 2017 (restated)[1]
Net profit (loss) (annualized) [2]	1,046,674	1,449,604
Weighted average number of common shares	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [2]	1.21	1.68
Weighted average diluted number of common shares	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [2]	1.21	1.68

[1] Information on restatement of data for the period from 1 January to 31 March 2017 is presented in section 10.
[2] 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 2018	1 January – 31 December 2017	1 January – 31 March 2017 (restated)[1)]
I. Equity at the beginning of the period (Opening Balance)	13,583,288	12,117,464	12,117,464
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	13,583,288	12,117,464	12,117,464
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Supplementary capital at the beginning of the period	5,258,449	4,889,182	4,889,182
2.1. Change in supplementary capital	246	369,267	12
a) additions (by virtue of):	246	369,267	12
- distribution of profit (above the statutorily required amount)	-	369,019	-
- from revaluation reserve – by sale and liquidation of fixed assets	246	248	12
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	5,258,695	5,258,449	4,889,194
3. Revaluation reserve at the beginning of the period	5,824,295	5,568,661	5,568,661
- changes in the accepted accounting principles (policy)	-	-	-
3.1. Change in the revaluation reserve	48,896	255,634	507,984
a) additions (by virtue of):	203,339	528,732	558,446
- valuation of financial investments	199,882	527,168	558,446
- transfer of the impairment losses on investments available for sale	3,457	1,268	-
- additions by virtue of disposal of available for sale instruments	-	296	-
b) reductions (by virtue of)	154,443	273,098	50,462
- valuation of financial investments	154,197	233,471	50,450
- reductions by virtue of the disposal of instruments available for sale	-	39,379	-
- sale of fixed assets	246	248	12
- other reductions, including recognition of impairment losses for real estate	-	-	-
3.2. Revaluation reserve at the end of the period	5,873,192	5,824,295	6,076,645

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2018	1 January – 31 December 2017	1 January – 31 March 2017 (restated)[1]
4. Other reserve capital at the beginning of the period	-	-	-
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	-	-	-
5. Retained earnings (losses) at the beginning of the period	2,414,192	1,592,951	1,592,951
5.1. Retained earnings at the beginning of the period	2,414,192	1,592,951	1,592,951
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
c) result of the final purchase price allocation of the acquisition of the organized part of Bank BPH SA by Alior Bank SA	-	(19,682)	(19,682)
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	2,414,192	1,573,269	1,573,269
a) increases	-	-	-
b) decreases	-	1,592,951	-
- transfers to supplementary capital	-	369,019	-
- disbursement of dividends	-	1,208,932	-
- transfers/charges to the Company Social Benefit Fund	-	15,000	-
5.3. Retained earnings at the end of the period	2,414,192	(19,682)	1,573,269
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 adjustments to ensure comparability	-	-	-
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	2,414,192	(19,682)	1,573,269
6. Net result	258,084	2,433,874	357,437
a) net profit	258,084	2,433,874	357,437
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	13,890,516	13,583,288	12,982,897

[1] Information on restatement of data for the period from 1 January to 31 March 2017 is presented in section 10.

6. Interim cash flow statement

Cash flow statement	1 January – 31 March 2018	1 January – 31 December 2017	1 January – 31 March 2017
A. Cash flows from operating activities			
I. Proceeds	3,815,925	13,806,271	3,515,743
1. Proceeds on direct activity and inward reinsurance	3,539,648	12,650,607	3,237,374
1.1. Proceeds on gross premiums	3,505,608	12,499,547	3,204,859
1.2. Proceeds on subrogation, salvage and claim refunds	26,029	131,408	27,663
1.3. Other proceeds on direct activity	8,010	19,652	4,852
2. Proceeds from outward reinsurance	74,582	371,289	76,850
2.1. Payments received from reinsurers for their share of claims paid	59,019	297,057	69,252
2.2. Proceeds on reinsurance commissions and profit participation	15,563	64,678	6,923
2.3. Other proceeds from outward reinsurance	-	9,554	675
3. Proceeds from other operating activity	201,694	784,375	201,519
3.1. Proceeds for acting as an emergency adjuster	76,837	293,550	88,227
3.2. Sale of intangible assets and non-investment property, plant and equipment	248	1,719	474
3.3. Other proceeds	124,609	489,106	112,818
II. Expenditures	3,142,692	12,207,631	2,968,050
1. Expenditures on direct activity and inward reinsurance	2,553,576	9,957,458	2,347,100
1.1. Gross premium refunds	64,840	247,992	49,825
1.2. Gross claims and benefits paid	1,538,958	6,004,742	1,379,209
1.3. Acquisition expenditures	409,763	1,541,322	395,799
1.4. Administrative expenditures	342,405	1,435,181	338,084
1.5. Expenditures for claims handling and pursuit of subrogation	61,980	260,307	63,338
1.6. Commissions paid and profit-sharing on inward reinsurance	102,379	322,502	84,860
1.7. Other expenditures on direct activity and inward reinsurance	33,252	145,412	35,985
2. Expenditures on outward reinsurance	149,703	453,876	113,888
2.1. Premiums paid for reinsurance	149,590	453,627	113,868
2.2. Other expenditures on outward reinsurance	114	249	20
3. Expenditures on other operating activity	439,413	1,796,297	507,062
3.1. Expenditures for acting as an emergency adjuster	156,517	558,658	144,428
3.2. Purchase of intangible assets and non-investment property, plant and equipment	30,072	79,582	26,050
3.3. Other operating expenditures	252,825	1,158,057	336,584
III. Net cash flows from operating activities (I-II)	**673,232**	**1,598,640**	**547,693**

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2018	1 January – 31 December 2017	1 January – 31 March 2017
B. Cash flow on investing activity			
I. Proceeds	37,791,368	232,583,546	63,485,194
1. Sale of real estate	2,820	22,394	1,350
2. Sale of ownership interests and shares in related parties	-	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	-	283,084	2,111
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	63,040	-
5. Realization of debt securities issued by other entities	2,769,324	59,985,741	16,006,623
6. Liquidation of term deposits with credit institutions	11,297,435	55,122,177	10,117,281
7. Realization of other investments	23,672,757	114,704,701	37,326,159
8. Proceeds from real estate	2,021	8,037	1,976
9. Interest received	40,457	452,645	23,784
10. Dividends received	-	1,925,058	3
11. Other investment proceeds	6,554	16,669	5,907
II. Expenditures	38,407,801	235,261,441	64,535,793
1. Purchase of real estate	737	-	-
2. Purchase of ownership interests and shares in related parties	45	7,092,219	-
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	10,062	87,379	19,356
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	11,768	-
5. Purchase of debt securities issued by other entities	4,002,815	58,459,268	17,694,832
6. Purchase of term deposits with credit institutions	10,752,227	54,876,563	9,353,282
7. Purchase of other investments	23,619,319	114,684,065	37,452,465
8. Expenditures to maintain real estate	17,534	46,464	14,173
9. Other expenditures for investments	5,062	3,715	1,685
III. Net cash flows from investing activities (I-II)	**(616,433)**	**(2,677,895)**	**(1,050,599)**

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 flows from financing activities			
I. Proceeds	19,436,266	61,166,959	13,551,761
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	19,436,266	61,166,959	13,551,761
3. Other financial proceeds	-	-	-
II. Expenditures	19,483,700	60,186,196	13,552,044
1. Dividends	-	1,208,932	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury shares	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	19,436,300	58,926,473	13,552,044
5. Interest on loans and borrowings and issued debt securities	47,400	50,791	-
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(47,434)**	**980,763**	**(283)**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**9,365**	**(98,492)**	**(503,189)**
E. Balance sheet change in cash, including:	16,218	(165,879)	(554,492)
- movement in cash due to exchange differences	6,853	(67,387)	(51,303)
F. Cash at the beginning of the period	982,152	1,148,031	1,148,031
G. Cash at the end of the period (F+/-E), including:	998,370	982,152	593,539
- restricted cash	69,184	45,756	42,081

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 2017.

9. Changes in accounting policies

In the 3-month period ended 31 March 2018, no changes were made to the accounting principles (policy).

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

In connection with the completion of the final settlement process relating to the purchase of Bank BPH's Core Business by Alior Bank, the data as at 31 March 2017 and for the 1 January–31 March 2017 has been retroactively restated. The impact of the change is presented below.

Interim balance sheet	**31 March 2017** *(historical)*	**Adjustment**	**31 March 2017** *(restated)*
Assets II.2. Investments in related parties	9,982,847	(72,178)	9,910,669
Equity and liabilities I. 3 Revaluation reserve	6,143,439	(66,794)	6,076,645
Equity and liabilities I. 5 Retained earnings (losses)	1,592,951	(19,682)	1,573,269
Equity and liabilities I. 6 Net profit (loss)	343,139	14,298	357,437

Interim general profit and loss account	**1 January – 31 March 2017** *(historical)*	**Adjustment**	**1 January – 31 March 2017** *(restated)*
XIII. Share of the net profit (loss) of related parties measured by the equity method	(21,512)	14,298	(7,214)

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 16 May 2018