Capital Group
of Powszechny Zakład Ubezpieczeń
Spółka Akcyjna

Consolidated financial statements
for the year ended on 31 December 2016
with auditor's opinion

Table of contents

(in PLN million)

Consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 January-31 December 2016	1 January-31 December 2015
Gross written premiums	11	20,219	18,359
Reinsurers' share in gross written premiums		(431)	(367)
Net written premiums		**19,788**	**17,992**
Change in net unearned premiums reserve		(1,163)	(607)
Net earned premiums		**18,625**	**17,385**
Revenue from commissions and fees	12	808	243
Net investment income	13	4,165	1,571
Net result on realization and impairment losses on investments	14	(935)	(223)
Net change in the fair value of assets and liabilities measured at fair value	15	357	391
Other operating income	16	1,388	803
Insurance claims, benefits, and change in technical provisions		(12,888)	(12,283)
Reinsurers' share in claims, benefits and change in technical provisions		156	426
Net insurance claims and benefits	**17**	**(12,732)**	**(11,857)**
Costs of commissions and fees	18	(285)	-
Interest expenses	19	(773)	(117)
Acquisition costs	20	(2,613)	(2,376)
Administrative expenses	21	(2,843)	(1,658)
Other operating expenses	23	(2,128)	(1,222)
Operating profit		**3,034**	**2,940**
Share in net financial result of companies measured using the equity method		(3)	4
Profit before tax		**3,031**	**2,944**
Income tax	24	(614)	(601)
Net profit, including:		**2,417**	**2,343**
- profit attributable to owners of the parent entity		1,947	2,343
- profit (loss) attributable to non-controlling interest		470	-

Basic and diluted weighted average number of ordinary shares in issue	25	863,510,930	863,523,000
Basic and diluted profit (loss) per ordinary share (in PLN)	25	2.25	2.71

Warsaw, 14 March 2017

Attached notes form an integral part of the consolidated financial statements

(in PLN million)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January-31 December 2016	1 January-31 December 2015
Net profit		2,417	2,343
Other comprehensive income	26	(125)	5
Amounts subject to subsequent transfer to the statement of profit or loss		(135)	(4)
Measurement of available-for-sale financial instruments		(144)	2
Exchange differences from translation		40	(7)
Other comprehensive income of entities measured using the equity method		-	1
Cash flows hedge		(31)	
Amounts not subject to subsequent transfer to the statement of profit or loss		10	9
Property reclassified from property, plant and equipment to investment property		3	7
Actuarial gains and losses concerning provisions for employee benefits		7	2
Total net comprehensive income		**2,292**	**2,348**
- comprehensive income attributable to owners of the parent entity		1,884	2,348
- comprehensive income attributable to non-controlling interest		408	-

Warsaw, 14 March 2017

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(in PLN million)

Consolidated statement of financial position

Assets	Note	31 December 2016	31 December 2015 (restated)	1 January 2015 (restated)
Goodwill	27	1,583	1,532	769
Intangible assets	28	1,463	1,393	869
Other assets	29	871	813	363
Deferred acquisition costs	30	1,407	1,154	712
Reinsurers' share in technical provisions	34.5, 39	990	1,097	753
Tangible fixed assets	31	1,467	1,300	1,002
Investment property	32	1,738	1,172	2,236
Entities measured using the equity method	33	37	54	66
Financial assets		105,300	89,229	56,760
Held to maturity	34.1, 34.5	17,346	17,370	19,984
Available for sale	34.2, 34.5	11,635	7,745	2,985
Measured at fair value through profit or loss	34.3	21,882	20,648	19,097
Hedging derivatives	8.5.2	72	140	-
Loans	34.4, 34.5	54,365	43,326	14,694
Deferred tax assets	42.1	624	369	27
Receivables	34.5, 35	5,703	3,338	3,085
Cash and cash equivalents	36	2,973	2,440	324
Assets held for sale	37	1,189	1,506	607
Total assets		**125,345**	**105,397**	**67,573**

Equity and liabilities	Note	31 December 2016	31 December 2015 (restated)	1 January 2015 (restated)
Equity				
Equity attributable to owners of the parent entity	38	13,010	12,924	13,167
Share capital	38.1	86	86	86
Other capitals	38.2	10,869	10,142	9,887
Unappropriated result		2,055	2,696	3,194
Retained earnings		108	353	3,194
Net profit		1,947	2,343	-
Non-controlling interest		4,117	2,194,	1
Total equity		**17,127**	**15,118**	**13,168**
Liabilities				
Technical provisions	39	42,194	41,280	40,167
Provisions for employee benefits	40	128	117	120
Other provisions	41	367	108	191
Deferred tax liabilities	42.2	469	509	398
Financial liabilities	43	60,030	44,695	9,403
Other liabilities	44	4,997	3,570	3,874
Liabilities directly associated with assets qualified as held for sale	37	33	-	252
Total liabilities		**108,218**	**90,279**	**54,405**
Total equity and liabilities		**125,345**	**105,397**	**67,573**

Warsaw, 14 March 2017

Attached notes form an integral part of the consolidated financial statements

(in PLN million)

Statement of changes in consolidated equity

Statement of changes in consolidated equity	Note	Equity attributable to owners of the parent entity										Non-controlling interest	Total equity
		Share capital	Other reserves						Unappropriated result		Total		
			Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses concerning provisions for employee benefits	Exchange differences from translation	Retained earnings	Net profit			
Note		38.1		38.2	38.2		38.2	38.2				2.3	
Balance as at 1 January 2016		**86**	**-**	**9,947**	**241**	**-**	**(4)**	**(42)**	**2,696**	**-**	**12,924**	**2,194**	**15,118**
Measurement of available-for-sale financial instruments		-	-	-	(104)	-	-	-	-	-	(104)	(40)	(144)
Cash flows hedge		-	-	-	(9)	-	-	-	-	-	(9)	(22)	(31)
Exchange differences from translation		-	-	-	-	-	-	40	-	-	40	-	40
Actuarial gains and losses concerning provisions for employee benefits		-	-	-	-	-	7	-	-	-	7	-	7
Property reclassified from property, plant and equipment to investment property		-	-	-	3	-	-	-	-	-	3	-	3
Total other net comprehensive income		**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**-**	**(63)**	**(62)**	**(125)**
Net profit (loss)		-	-	-	-	-	-	-	-	1,947	1,947	470	2,417
Total comprehensive income		**-**	**-**	**-**	**(110)**	**-**	**7**	**40**	**-**	**1,947**	**1,884**	**408**	**2,292**
Other changes, including:		**-**	**(1)**	**811**	**(25)**	**5**	**-**	**-**	**(2,588)**	**-**	**(1,798)**	**1,515**	**(283)**
Profit appropriation	38.1.1	-	-	787	-	5	-	-	(2,588)	-	(1,796)		(1,796)
Issues of Alior Bank shares		-	-	-	-	-	-	-	-	-	-	1,528	1,528
Purchase of own shares			(1)	-	-	-	-	-	-	-	(1)	-	(1)
Changes in PZU Group's composition and transactions with non-controlling shareholders		-	-	(1)	-	-	-	-	-	-	(1)	(13)	(14)
Sale of revalued property		-	-	25	(25)	-	-	-	-	-	-	-	-
At 31 December 2016		**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**108**	**1,947**	**13,010**	**4,117**	**17,127**

Warsaw, 14 March 2017

Attached notes form an integral part of the consolidated financial statements

(in PLN million)

Statement of changes in consolidated equity (restated)	Note	Share capital	Equity attributable to owners of the parent entity							Non-controlling interest	Total equity
			Other capitals				Unappropriated result		Total		
			Supplementary capital	Revaluation reserve	Actuarial gains and losses concerning provisions for employee benefits	Exchange differences from translation	Retained earnings	Net profit			
Note		38.1	38.2	38.2	38.2	38.2				2.3	
Balance as at 1 January 2015		**86**	**9,679**	**249**	**(6)**	**(35)**	**3,194**	**-**	**13,167**	**1**	**13,168**
Measurement of available-for-sale financial instruments		-	-	2	-	-	-	-	2	-	2
Other comprehensive income of entities measured using the equity method		-	-	1	-	-	-	-	1	-	1
Exchange differences from translation		-	-	-	-	(7)	-	-	(7)	-	(7)
Actuarial gains and losses concerning provisions for employee benefits		-	-	-	2	-	-	-	2	-	2
Property reclassified from property, plant and equipment to investment property		-	-	7	-	-	-	-	7	-	7
Total other net comprehensive income		**-**	**-**	**10**	**2**	**(7)**	**-**	**-**	**5**	**-**	**5**
Net profit (loss)		-	-	-	-	-	-	2,343	2,343	-	2,343
Total comprehensive income		**-**	**-**	**10**	**2**	**(7)**	**-**	**2,343**	**2,348**	**-**	**2,348**
Other changes, including:		**-**	**268**	**(18)**	**-**	**-**	**(2,841)**	**-**	**(2,591)**	**2,193**	**(398)**
Profit appropriation		-	248	-	-	-	(2,839)	-	(2,591)	-	(2,591)
Changes in PZU Group's composition and transactions with non-controlling shareholders	2.4.1.2	-		-	-	-	-	-	-	2,193	2,193
Sale of revalued property		-	20	(18)	-	-	(2)	-	-	-	-
At 31 December 2015		**86**	**9,947**	**241**	**(4)**	**(42)**	**353**	**2,343**	**12,924**	**2,194**	**15,118**

Warsaw, 14 March 2017

Attached notes form an integral part of the consolidated financial statements

(in PLN million)

Consolidated cash flows statement

Consolidated cash flows statement	Note	1 January- 31 December 2016	1 January - 31 December 2015 (restated)
Profit before tax		3,031	2,944
Adjustments		1,206	(1,672)
Change in loan receivables from clients		(5,190)	-
Change in liabilities from deposits		3,964	-
Change in valuation of assets measured at fair value		(357)	(391)
Interest income		(1,126)	(1,232)
Realized investment profit/loss and impairment losses		935	223
Result from foreign exchange differences		(98)	(78)
Change in deferred acquisition costs		(253)	(443)
Amortization of intangible assets and tangible assets		412	359
Change in reinsurers' share in technical provisions		107	(344)
Change in technical provisions		914	1,113
Change in receivables		(2,338)	256
Change in liabilities		1,967	126
Flows from investment contracts		(152)	(558)
Acquisitions and redemptions of participation units and certificates in investment funds		303	385
Paid income tax		(580)	(555)
Profit from bargain acquisition of the core Business of Bank BPH		(508)	-
Other adjustments		3,206	(533)
Net cash flows from operating activities		**4,237**	**1,272**
Cash flows from investment activities			
Inflows		1,030,990	645,441
- disposal of investment property		69	57
- inflows from investment property		279	246
- disposal of intangible assets and tangible assets		14	6
- disposal of shares		4,470	4,878
- redemption of debt instruments		183,612	45 218
- inflows from buy-sell-back transactions		351,307	312,777
- withdrawal of term deposits at credit institutions		367,893	192,354
- inflows from other investments		120,655	85,974
- interest received		1,525	1 737
- dividends received		61	53
- cash inflows due to purchase of units and changes in the consolidation scope		1,076	2,104
- other inflows from investments		29	37

(in PLN million)

Consolidated cash flows statement (cont.)

Consolidated cash flows statement	**Note**	**1 January-31 December 2016**	**1 January-31 December 2015** (restated)
Outflows		(1,032,857)	(640,588)
- acquisition of investment property		(202)	(312)
- outflows for maintenance of investment property		(174)	(168)
- acquisition of intangible assets and tangible assets		(700)	(321)
- acquisition of shares		(4,336)	(4,771)
- acquisition of shares in subsidiaries	2.4.1	(1,852)	(1,348)
- cash outflows due to sale of units and changes in the consolidation scope	2.4.2	(7)	(227)
- acquisition of debt securities		(188,304)	(43,041)
- opening buy-sell-back transactions		(351,016)	(312,954)
- acquisition of term deposits at credit institutions		(364,550)	(191,288)
- acquisition of other investments		(121,715)	(86,152)
- other investments outflows		(1)	(6)
Net cash flows from investment activities		**(1,867)**	**4,853**
Cash flows from financial activities			
Inflows		333,943	373,820
- inflows from issuance of shares by subsidiaries (partially covered by non-controlling shareholders)		1,516	-
- inflows from loans and borrowings		2,883	41
- inflows due to issuance of own debt securities		277	1,457
- opening sell-buy-back transactions		329,267	372,322
Outflows		(335,833)	(377,854)
- dividends paid to owners of the parent entity	38.1.1.1	(1,796)	(4,059)
- repayment of loans and borrowings		(38)	(126)
- inflows from sell-buy-back transactions		(332,902)	(373,635)
- interest from loans and borrowings		(994)	(5)
- interest from issued debt securities		(103)	(29)
Net cash flows from financial activities		**(1,890)**	**(4,034)**
Total net cash flows		**480**	**2,091**
Cash and cash equivalents at the beginning of the financial year		2,440	324
Change in cash due to foreign exchange differences		53	25
Cash and cash equivalents at the end of the financial year, including:	36	2,973	2,440
- not available for use		35	22

Warsaw, 14 March 2017

Additional information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (henceforth: "consolidated financial statements" and "PZU Group", respectively) have been prepared in accordance with International Financial Reporting Standards ("IFRS") published and effective as at 31 December 2016 and endorsed by the European Commission.

Financial year

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2016 to 31 December 2016.

Financial Statements approval

These consolidated financial statements were signed and authorized for issue by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("PZU", the "parent entity") on 14 March 2017 and shall be subject to approval of the Annual General Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in PLN million.

The functional currency of companies whose registered offices are located in Ukraine is the Ukrainian hryvnia, whereas in the case of the companies whose registered offices are located in Lithuania, Latvia and Sweden it is the euro.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that PZU Group's entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing these consolidated financial statements, no facts and circumstances indicate a risk to PZU Group entities' ability to operate as a going concern during 12 months after closing the reporting year due to the intended or forced discontinuation or significant limitation of its operations.

Discontinued operations

In 2016, the entities in PZU Group did not discontinue any significant type of operations.

Glossary

Below are listed the most important terms and abbreviations used in the consolidated financial statements.

Company names

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

Artimed – Artimed Niepubliczny Zakład Opieki Zdrowotnej Sp. z o.o.

Bank BPH – Bank BPH SA.

CM Medica – Centrum Medyczne Medica sp. z o.o.

EMC – EMC Instytut Medyczny SA.

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PFR – Polski Fundusz Rozwoju SA.

Core Business of Bank BPH – an organized part of the business comprising all assets and liabilities of Bank BPH, except for the assets and liabilities which will remain with Bank BPH after the division, being the mortgage activity of Bank BPH.

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent entity – 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.

SPMP – Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o.

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

TFI PZU SA – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BGF – Bank Guarantee Fund.

CGU – cash generating unit.

DPF – discretionary participation features within the meaning of IFRS 4 – Insurance contracts.

Forbearance – tools used to restructure debt, most often taking a form of facilities granted to the debtor by the creditor.

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

IBNR – Incurred But Not Reported.

Separate financial statements of PZU for the year 2016 – annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2016, in accordance with PAS, signed by the Management Board of PZU on 14 March 2017.

PFSA – Polish Financial Supervision Authority.

Code of Commercial Companies – act dated 15 September 2000 of the Code of Commercial Companies (i.e. Journal of Laws of 2016, item 1578, as amended).

IFRS – International Financial Reporting Standards, published and effective as at 31 December 2016 and endorsed by the European Commission.

NBP – National Bank of Poland.

TCG – Tax Capital Group established pursuant to an agreement signed on 25 September 2014 and entered into by the following 13 PZU Group companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje sp. z o.o., Ipsilon sp. z o.o., PZU Asset Management SA, TFI PZU SA, PZU Zdrowie SA, PZU Finanse sp. z o.o., Omicron SA, and Omicron Bis SA. TCG was formed for the period of 3 years, from 1 January 2015 to 31 December 2017. PZU is the parent entity and the company representing TCG.

Banking law – Banking Law Act dated 29 August 1997 (i.e. Journal of Laws of 2015, item 128, as amended) and the regulations issued thereunder.

PAS – the Accounting Act of 29 September 1994 (i.e. Journal of Laws of 2016, item 1047) and the regulations issued thereunder.

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

RBNP – Reported But Not Paid.

Consolidated financial statements – consolidated financial statements of PZU Group in accordance with IFRS for the year ended on 31 December 2016.

Old portfolio – individual life insurance (marriage and life) and annuity assumed from Państwowy Zakład Ubezpieczeń.

UKNF – Polish Financial Supervision Authority.

Act on the Bank Guarantee Fund – act dated 10 June 2016 on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution (i.e. Journal of Laws of 2016, item 996, as amended).

Act on Insurance Activity – act dated 11 September 2015 on insurance and reinsurance activity (Journal of Laws of 2015, item 1844).

Pension Funds Act – Pension Funds Act of 28 August 1997 (i.e. Journal of Laws of 2013, item 989, as amended).

Act of Offering - Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public companies dated 29 July 2005 (i.e. Journal of Laws of 2016, item 1639).

Act on Cooperative Savings and Credit Unions – act dated 5 November 2009 on cooperative savings and credit unions (i.e. Journal of Laws of 2013, item 1450).

ZUS – Social Insurance Institution.

2. Structure of PZU Group

2.1 PZU

PZU Group's parent entity is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24.

PZU is entered to the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

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

(in PLN million)

2.2 PZU Group's companies, associates and joint ventures

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2016	31 December 2015	
Consolidated subsidiaries						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	99.98%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga (Latvia)	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated subsidiaries – Alior Bank Capital Group						
10	Alior Bank SA [1)]	Warsaw	18.12.2015	29.45% [2)]	23.96% [3)]	Banking services. https://www.aliorbank.pl/
11	Alior Services sp. z o.o. [1)]	Warsaw	18.12.2015	29.45%	23.96% [3)]	Other activity auxiliary to financial services excluding insurance and pension funds.
12	Centrum Obrotu Wierzytelnościami sp. z o.o. [1)]	Cracow	18.12.2015	29.45%	23.96% [3)]	Trading in receivables.
13	Alior Leasing sp. z o.o. [1)]	Wrocław	18.12.2015	29.45%	23.96% [3)]	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
14	Meritum Services ICB SA [1)]	Gdańsk	18.12.2015	29.45%	23.96% [3)]	IT services.
15	Money Makers TFI SA [1)]	Warsaw	18.12.2015	17.33% [4)]	14.49% [3) 4)]	Asset management and managing Alior SFIO sub-funds. http://www.moneymakers.pl
16	New Commerce Services sp. z o.o. [1)]	Warsaw	18.12.2015	29.45%	23.96%	The company does not conduct business operations.
17	Absource sp. z o.o.	Cracow	04.05.2016	29.45%	n/a	IT services.

(in PLN million)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2016	31 December 2015	
Consolidated subsidiaries – other units						
18	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
19	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activities related to insurance and pension funds.
20	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Establishment, representation and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
21	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
22	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
23	PZU Finanse sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
24	Tower Inwestycje sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Other services.
25	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Acquiring, operating, renting and selling of real property.http://www.ogrodowainwestycje.pl/
26	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Health care services. http://www.pzu.pl/grupa-pzu/pzu-zycie
27	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Health care services. http://cmmedica.pl/
28	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Health care services. http://cmprofmed.pl/
29	Sanatorium Uzdrowiskowe „Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, rehabilitation and spa therapy services. http://www.sanatoriumkrystynka.pl/
30	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Health care services. http://www.elvita.pl/
31	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Health care services. http://www.proelmed.pl/
32	Rezo-Medica sp. z o.o.	Płock	23.04.2015	100.00%	100.00%	Health care services. http://rezo-medica.pl/
33	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Health care services. http://www.cmgamma.pl/
34	Medicus w Opolu sp. z o.o.	Opole	30.09.2015	100.00%	100.00%	Health care services. http://medicus.opole.pl/
35	Polmedic sp. z o.o. [5)]	Radom	30.11.2016	100.00%	n/a	Health care services. http://www.cordis.com.pl/
36	Specjalistyczna Przychodnia Medycyny Pracy sp. z o.o. [5)]	Radom	30.11.2016	100.00%	n/a	Health care services. http://www.medycynapracy.com.pl/

(in PLN million)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2016	31 December 2015	
Consolidated subsidiaries – other units – continued						
37	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o. 5)	Kielce	21.12.2016	100.00%	n/a	Health care services. https://artimed.pl/
38	Nasze-Zdrowie sp. z o.o. 6)	Warsaw	26.08.2015	n/a	100.00%	n/a
39	Centrum Medyczne Cordis sp. z o.o. 7)	Poznan	01.02.2016	n/a	100.00%	n/a
40	Arm Property sp. z o.o.	Cracow	26.11.2014	100.00%	100.00%	Purchase and sales of property.
41	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Assistance and health care services.
42	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	The company does not conduct business operations.
43	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	The company does not conduct business operations.
44	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	The company does not conduct business operations.
45	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	The company does not conduct business operations.
46	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
47	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	100.00%	The company does not conduct business operations.
Consolidated subsidiaries – Armatura Capital Group						
48	Armatura Kraków SA	Cracow	07.10.1999	100.00%	100.00%	Distribution of products of Armatura Group, administration and management of Armatura Group. http://www.grupa-armatura.pl/
49	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	Production and distribution of radiators and sanitary fixtures and fittings.
50	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Manufacturing and sales of bathroom fittings.
51	Aquaform Badprodukte GmbH	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale.
52	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale.
53	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale.
54	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	The company does not conduct business operations.
Consolidated subsidiaries – investment funds						
55	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from the participants of the fund.
56	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	As above.
57	PZU FIZ Sektora Nieruchomości 8)	Warsaw	01.07.2008	n/a	n/a	As above.
58	PZU FIZ Sektora Nieruchomości 2 8)	Warsaw	21.11.2011	n/a	n/a	As above.
59	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	As above.
60	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	As above.
61	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	As above.

(in PLN million)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2016	31 December 2015	
Consolidated subsidiaries – investment funds – continued						
62	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	As above.
63	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	As above.
64	PZU Sejf+	Warsaw	30.09.2015	n/a	n/a	As above.
65	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
66	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	As above.
67	PZU Telekomunikacja Media Technologia	Warsaw	07.09.2016	n/a	n/a	As above.
68	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	As above.
69	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	As above.
70	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	As above.
Associates						
71	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance management.
72	EMC Instytut Medyczny SA	Wrocław	18.06.2013	28.31% [9)]	28.31% [9)]	Health protection, R&D in medical sciences and pharmacy.

[1)] Information about the acquisition of Alior Bank SA along with its subsidiaries is presented in point 2.4.1.2.

[2)] Increase in PZU Group's share in share capital and voting rights at the General Shareholders' Meeting between 31 December 2016 and 31 December 2015 results from the purchase of shares by PZU under tranche III of the transaction described in point 2.4.1.2 (5.26%) and the purchase of shares in consolidated investment funds (0.23%) in the fourth quarter of 2016.

[3)] Share of PZU Group in Alior Bank's share capital and voting rights at the General Shareholders' Meeting determined on the basis of the number of shares held by PZU (I and II tranche of shares acquired under the transaction described in 2.4.1.2, PZU Życie and consolidated investment funds. The figure does not include shares acquired by PZU under tranche III of the transaction described in 2.4.1.2.

[4)] Company directly controlled by Alior Bank where it holds 58.84% of the share capital (as at 31 December 2015: 60.49%). As a result, PZU Management Board assumes that PZU Group exercises control over the company.

[5)] Information concerning the acquisition of Polmedic sp. z o.o., SPMP, and Artimed is presented in 2.4.1.3

[6)] On 13 May 2016, the General Meeting of Shareholders of PZU Zdrowie SA adopted a resolution on combination of PZU Zdrowia SA (acquirer) and Nasze Zdrowie sp. z o.o. (acquiree).The merger was conducted by means of transferring entire equity of the acquiree to the acquirer. The merger was registered in the National Court Register on 30 June 2016. The transaction did not affect the consolidated financial statements.

[7)] On 1 August 2016, the General Meeting of Shareholders of PZU Zdrowie SA adopted a resolution on combination of PZU Zdrowia SA (acquirer) and Centrum Medyczne Cordis sp. z o.o (acquiree). The merger was conducted by means of transferring entire equity of the acquiree to the acquirer. The merger were registered in the National Court Register on 2 November 2016.The transaction did not affect the consolidated financial statements.

[8)] As at 31 December 2016, the PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 funds conducted investment operations through special purpose vehicles (included in the consolidation), whose number in particular funds amounted to: 24 and 11, respectively (as at 31 December 2015: 24 and 11).

[9)] Share in the voting rights held by PZU differs from the share in the share capital and both as at 31 December 2016 and as at 31 December 2015 it amounted to 25.44%. The difference between the interest in voting rights and share capital results from the fact that non-controlling shareholders hold shares preferred as to voting rights.

But for the companies listed in the table, as at 31 December 2016, PZU Group owned 100% of shares in Syta Development sp. z o.o. in liquidation that is controlled by the official receiver independent from PZU Group and, therefore, the company was not subject to consolidation. The carrying amount of these shares in the consolidated statement of financial standing of PZU Group amounted to 0.

(in PLN million)

2.3 Non-controlling interest

The table below presents the subsidiaries with present or past non-controlling interest:

Name of entity	31 December 2016	31 December 2015
Alior Bank [1)]	70.55%	70.78% [2)]
Gamma	39.54%	39.54%
Proelmed	43.00%	43.00%
SU Krystynka	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%
Lietuvos Draudimas AB	0.00%	0.02%

[1)] Value of non-controlling interest of Alior Bank was represented by means of recognizing tranche III of the transaction specified in 2.4.1.2

As at 31 December 2016, the carrying amount of non-controlling interest at Alior Bank was settled at PLN 4,111 million (as at 31 December 2015: PLN 2,188 million). Increase in the amount between 31 December 2016 and 31 December 2015 results from an increase in Alior Bank share capital, referred to in point 2.5.

The below table presents consolidated financial data of Alior Bank Group included in the consolidated financial statements. The data also includes the values resulting from the acquisition of the basic activity of Bank BPH for the controlling period (i.e. from 4 November 2016).

Assets	31 December2016	31 December 2015 (restated)
Intangible assets	666	582
Other assets	73	109
Fixed tangible assets	486	229
Fianancial assets	57,092	35,767
Held to maturity	220	-
Available for sale	9,505	4,867
Measured at fair value through profit or loss	419	390
Hedging derivatives	72	140
Loans	46,876	30,370
Deferred tax assets	594	349
Receivables	815	484
Cash and cash equivalents	1,126	2,090
Assets held for sale	1	1
Total assets	**60,853**	**39,611**

(in PLN million)

Equity and liabilities	31 December 2016	31 December 2015
Equity		
Equity attributable to owners of the parent entity		
Share capital	1,293	727
Other capitals	4,298	2,480
Unappropriated result	236 [1)]	(115)[1)]
Non-controlling interest	1	1
Total equity	**5,828 [1)]**	**3,093[1)]**
Liabilities		
Provisions for employee benefits	43	26
Other provisions	276	9
Financial liabilities	53,266	35,921
Other liabilities	1,440	562
Total liabilities	55,025	36,518
Total equity and liabilities	**60,853**	**39,611**

The item includes adjustment resulting from the remeasurement of assets and liabilities to fair value as at the acquisition date and its subsequent measurement and amortization of intangible assets identified in the acquisition of Alior Bank.

Due to the fact that Alior Bank and its subsidiaries had no impact on 2015 results, the comparative data for the statement of profit or loss, the statement of other comprehensive income and the cash flow statement was not presented.

Statement of profit or loss	1 January – 31 December 2016	1 January – 31 December 2015
Revenue from commissions and fees	590	-
Net investment income [1)]	2,899	-
Net result on realization and impairment losses on investments	(763)	-
Net change in the fair value of assets and liabilities measured at fair value	142	-
Other operating income	641	-
Costs of commissions and fees	(260)	-
Interest expense	(681)	-
Administrative expenses [2)]	(1,199)	-
Other operating expenses [3)]	(622)	-
Operating profit [1) 2) 3)]	**747**	**-**
Gross profit [1) 2) 3)]	**747**	**-**
Income tax	(84)	-
Net profit [1) 2) 3)]	**663**	**-**

[1)] Including PLN 91 million of positive impact of differences in interest income from loan portfolio measured at fair value as at the date of the acquisition of Alior Bank.
[2)] Including PLN 10 million of positive impact from the settlement of liabilities arising from unfavorable (generating charges) property lease agreements due to the acquisition of Alior Bank.
[3)] Including PLN 46 million of costs resulting from amortization of intangible assets (relations with clients having CDIs) acquired in the transaction of Alior Bank acquisition.

Statement of comprehensive income	1 January – 31 December 2016	1 January – 31 December 2015
Net profit	663	-
Other comprehensive income – subject to subsequent transfer to statement of profit or loss	(87)	-
Measurement of available-for-sale financial instruments	(56)	-
Cash flows hedge	(31)	-
Total net comprehensive income	**576**	**-**

(in PLN million)

Cash flow statement	1 January-31 December 2016	1 January-31 December 2015
Net cash flows from operating activities	(2,226)	-
Net cash flows from investment activities	(643)	-
Net cash flows from financial activities	2,376	-
Total net cash flows	**(493)**	**-**

In 2016 Alior Bank did not pay dividends.

The below table presents additionally the statement of profit or loss of PZU Group for the period from 1 January to 31 December 2016 presenting the effect of excluding Alior Bank as its subsidiary, subject to consolidation.

Consolidated statement of profit or loss	PZU Group	Exclusion of Alior Bank data	Elimination of consolidation adjustments	The Group without Alior Bank
Gross written premiums	20,219	-	19	20,238
Reinsurers' share in gross written premiums	(431)	-	-	(431)
Net written premiums	**19,788**	**-**	**19**	**19,807**
Change in net unearned premiums reserve	(1,163)	-	-	(1,163)
Net earned premiums	**18,625**	**-**	**19**	**18,644**
Revenue from commissions and fees	808	(590)	-	218
Net investment income	4,165	(2,858)	11	1,318
Net result on realization and impairment losses on investments	(935)	763	-	(172)
Net change in the fair value of assets and liabilities measured at fair value	357	(183)	-	174
Other operating income	1,388	(641)	-	747
Insurance claims, benefits, and change in technical provisions	(12,888)	-	-	(12,888)
Reinsurers' share in claims, benefits, and change in technical provisions	156	-	-	156
Net insurance claims and benefits	**(12,732)**	**-**	**-**	**(12,732)**
Costs of commissions and fees	(285)	260	-	(25)
Interest expense	(773)	681	(11)	(103)
Acquisition costs	(2,613)	-	-	(2,613)
Administrative expenses	(2,843)	1,199	-	(1,644)
Other operating expenses	(2,128)	622	(19)	(1,525)
Operating profit (loss)	**3,034**	**(747)**	**-**	**2,287**
Share in net profit (loss) of companies measured using the equity method	(3)	-	-	(3)
Gross profit (loss)	**3,031**	**(747)**	**-**	**2,284**
Income tax	(614)	84	-	(530)
Net profit (loss)	**2,417**	**(663)**	**-**	**1,754**

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

2.4.1. Business combinations

Detailed accounting principles concerning the settlement of the acquisition transactions are presented in point 5.4.

In 2016, PZU Group acquired the basic activity of Bank BPH and 4 entities providing medical services.

Acquisition of the Core Business of Bank BPH is compliant with the growth strategy of Alior Bank that projects development based on organic growth and acquisitions, in conjunction with high return on equity. As a result of the acquisition of the Core Business of Bank BPH, Alior Bank was promoted to the 9th place among the largest banks in Poland in terms of asset held. The transaction brought Alior Bank closer to the realization of a strategic goal which is joining the group of 5–6 largest banks in Poland in the next couple of years.

The acquisition of entities rendering health care services (in 2016: Centrum Medyczne Cordis sp. z o.o., Polmedic sp. z o.o., SPMP, and Artimed) has aimed to supplement PZU Group's offer concerning health services and insurance. Development of the offer regarding health care services and health insurance is one of the key elements of the strategy pursued by PZU Group. Provision of some services in own institutions will allow for the increase in competitiveness of PZU Group on this market. The goodwill recognized in the consolidated financial statements is an outcome of the planned growth of this segment of services and the volume of benefits generated by health insurance whilst increasing the profitability of those services, as a result of leaving part of the margin in PZU Group.

2.4.1.1. Acquisition of the core business of Bank BPH

On 31 March 2016, Alior Bank (a subsidiary of PZU) signed with GE Investment Poland sp. z o.o. (GEIP), DRB Holdings B.V. and Selective American Financial Enterprises, LLC (together, "the Sellers of Bank BPH") a sale of shares and division agreement concerning the purchase of the core activity of the bank ("Sale of Shares and Division Agreement").

The Sale of Shares and Division Agreement covered:

acquisition of the shares constituting a significant share in Bank BPH from the Sellers of Bank BPH by Alior Bank;

division of Bank BPH, which is pursuant to Article 529 §1 point 4 of the Code of Commercial Companies, performed through transferring the core activity of Bank BPH to Alior Bank ("the Division") and

issue of new Alior Bank shares for the Bank BPH shareholders indicated in the plan of the division (i.e. excluding Alior Bank and the Sellers of Bank BPH and their related parties).

According to the Sale of Shares and Division Agreement, Alior Bank purchased the Core Activity of Bank BPH. The acquisition took place on 4 November 2016, the date of registering by the registry court the increase in Alior Bank share capital in relation to the division of Bank BPH.

Price

In the current report as at 2 August 2016, Alior Bank informed about determining the adjusted acquisition price of the Core Activity of Bank BPH in the amount of PLN 1,160 million. The price was established on the basis of the book value of net assets of the Core Business of Bank BPH less intangible assets as at 30 June 2016.

As a result of the call and compulsory purchase, Alior Bank paid also PLN 305 million to minority shareholders of Bank BPH.

Hence, the price paid for the Core Business of Bank BPH amounted in total to PLN 1,465 million.

The final settlement between Alior Bank and the Sellers of Bank BPH is based on the book value of net assets of the basic activity of Bank BPH minus intangibles as at 4 November 2016.

This was used by Alior Bank to assess the right to return of the previously made payment of PLN 93 million from the Sellers of Bank BPH. Furthermore, Alior Bank assessed the right to return of the previously made payment for adjustment of net assets to the level equivalent to Tier 1 ratio of 13.25% to the amount of PLN 52 million. The arrangement are being made between the parties to the transaction and as the result the parties will confirm the book value of net assets of the Core Business of Bank BPH less intangible assets. To the date of the consolidated financial statements, the parties have not reached the final settlement of the transaction. Provided that no agreement is made in this matter by the agreed date, the Agreement for Sale of Shares and Division sets forth that discrepancies between Alior Bank and the Sellers of Alior Bank be settled by an expert, that is an auditing company appointed in accordance with the provisions of the Agreement for Sale of Shares and Division. The decision made by the expect shall be valid for both parties.

Transaction terms

The transaction was financed with the public issue of new Alior Bank shares with the observance of pre-emptive right.

The realization of the transaction was conditional upon the fulfillment of the following conditions precedent:

- obtaining the approval of the relevant anti-trust authority (the approval was obtained on 23 June 2016);
- obtaining appropriate consents or decisions of PFSA by Bank BPH, Alior Bank and GEIP (the consents were obtained on 19 July 2016, 25 July 2016, 4 August 2016, and 9 August 2016);
- approving and signing the plan of division by Bank BPH and Alior Bank (which took place on 29 April 2016);
- adoption of a resolution concerning the increase in capital through the issue of new shares by the General Shareholders' Meeting of Alior Bank (the resolution was adopted on 5 May 2016);
- registering by the registry court the increase in Alior Bank share capital (the registration took place on 24 June 2016);
- adoption of a resolution concerning the approval of the Division by the General Shareholders' Meeting of Alior Bank (the resolution was adopted on 29 July 2016);
- obtaining specific tax interpretations related to the Division (the interpretation was received on 28 July 2016).

On 30 June 2016, Alior Bank, acting under Article 539 §1 and 2 of the Code of Commercial Companies, in relation to Article 402 (1) for the second time announced the planned division of Bank BPH. In accordance with the share exchange parity determined in the Plan of Division, 0.44 of Alior Bank share was to be granted and allocated to a shareholder of Bank BPH (with the exception of GE shareholders) for a single Bank BPH share ("Share Exchange Parity"), subject to the adjustment related to the dilution of Alior Bank share capital resulting from the public offer of Alior Bank in observance with pre-emptive right before the date of the Division. Taking into account the above-mentioned adjustment related to the dilution of Alior Bank share capital, the Share Exchange Parity was determined as 0.51 (rounded number).

On 24 August 2016, the transaction of purchase of Bank BPH under the call announced by Alior Bank was settled. The final price per share in the call amounted to PLN 31.19.

On 26 August 2016, the agreement between Alior Bank and GE shareholders came into effect, which is specified in Article 87 Section 1 Point 5 of the Act on Offering ("Agreement") with regard to the purchase of Bank BPH shares as a result of a request made to all other shareholders of Bank BPH to sell all shares they hold in Bank BPH pursuant to Article 82 of the Act on Offering ("Compulsory Buyout").

The Agreement came into force as a result of the request made by Alior Bank to GE Shareholders on 25 August 2016 to take agreed action in order to perform the Compulsory Buyout.

When the Agreement became effective, Alior Bank and GE shareholders jointly exceeded the threshold of 90% of the total number of votes at the general shareholders' meeting of Bank BPH.

Control over the Core Business of Bank BPH

During the transitional period ("Transitional Period") between the end of the Call and the date of registering the increase in the share capital of Alior Bank in relation to the Division by the registry court ("Division Date"), Alior Bank did not execute any rights arising from Bank BPH shares without prior consent of the Sellers of Bank BPH expressed in writing, subject to the exceptions set forth in the Sale of Shares and Division Agreement. In the Transitional Period, the Sellers of Bank BPH remained the referential shareholders of Bank BPH. While executing the above, Alior Bank did not appoint its representatives as members of the management and supervisory bodies of Bank BPH during the Transitional Period.

Obtaining control took place on the Date of the Division, that is, 4 November 2016.

(in PLN million)

Initial purchase price allocation of the Core Business of Bank BPH SA

Due to the fact that no all elements of settlement between Alior Bank and Sellers of Bank BPH are known, the below purchase price allocation is of a provisional nature. The measurement period shall not exceed 12 months from the acquisition date, i.e. 4 November 2017.

Fair value of the acquired assets and liabilities at the acquisition date	Initial settlement
Intangible assets	48
Tangible fixed assets	271
Financial assets	13,577
Available for sale	301
Measured at fair value through profit or loss	3,691
Loans, including receivables from clients due to credits	9,585
Cash	1,043
Other assets	271
New intangible assets identified during the acquisition, including:	42
- customer relations	42
Total assets	**15,252**
Financial liabilities, including:	13,166
Derivative instruments	38
Liabilities to banks	370
Liabilities to clients	12,534
Liabilities arising from bank securities	224
Other provisions	121
Other liabilities	137
- including liability arising from unfavorable (generating charges) property lease agreements.	19
Total liabilities	**13,424**
Fair value of the acquired net assets	**1,828**

Calculation of gain from bargain purchase	Provisional settlement
Consideration transferred	1,465
Contingent consideration, including:	(145)
Right to the return of a part of previously transferred consideration due to the adjustment of net assets to the level equivalent to Tier 1 ratio of 13.25%	(52)
Right to the return from shareholders of GE group of a part of previously transferred consideration due to adjustment of purchase price	(93)
Fair value of net identifiable assets	(1,828)
Gain from bargain purchase	**508**

Before recognizing the gain from bargain purchase in the consolidated financial statements, the reassessment was made to verify if all of the assets acquired and all of the liabilities assumed were correctly identified, in order to ensure that the measurements appropriately reflect consideration of all information available as of the acquisition date. Considering the provisional character of the purchase price allocation, the value of the gain can be subject to change in the future until the final price allocation has been made. An adjustment, if any, will be recognized retrospectively.

Gain from bargain purchase that results from negotiating a favorable purchase price was recognized in the consolidated statement of profit or loss under "Other operating income".

The purchased Core Business of Bank BPH will form a single CGU along with Alior Bank.

(in PLN million)

2.4.1.2. Acquisition of Alior Bank

Under the preliminary share purchase agreement signed on 30 May 2015 concerning the sale of Alior Bank's shares, PZU acquired 17,818,473 shares of Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A. and 500,00 Alior Bank's shares from Alior Polska sp. z o.o., i.e. 18,318,473 shares in total, representing 25.19% of both the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

Price per share amounted to PLN 89.25 and the acquisition cost of the shares amounted to PLN 1,635 million in total.

The acquisition of the first tranche was settled on 12 October 2015, the second – on 18 December 2015, and the third tranche of the transaction was settled on 11 March 2016. Between 12 October 2015 and 18 December 2015, PZU Group did not exercise control over Alior Bank, but it had a significant influence, and, as a result, Alior Bank was considered an associate at that time. Following the acquisition of the second tranche, PZU Group gained control over Alior Bank, and, as a result, since 18 December 2015 the bank has been subjected to consolidation along with its subsidiaries.

Final purchase price allocation of the acquisition of shares of Alior Bank

The purchase price allocation of the acquisition of shares of Alior Bank as at the acquisition date was accounted for on the basis of the data prepared as at 31 December 2015. There were no significant differences in the accounting data between 18 December 2015 (the control acquisition date) and 31 December 2015.

The consolidated financial statements contain the final fair value of the acquired assets and liabilities (loan portfolio in particular).

Upon the calculation of goodwill, the carrying amounts of assets and liabilities of Alior Bank have been remeasured to fair value and intangible assets and liabilities, which have not been hitherto recognized as assets by Alior Bank, have been identified:

- trademark;
- customer relations;
- liabilities arising from unfavorable (generating charges) property lease agreements.

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

Fair value of the acquired assets and liabilities at the acquisition date	Provisional settlement	Adjustment	Final settlement
Intangible assets	282	-	282
Property, plant and equipment	229	-	229
Financial assets	35,844	(77)[1]	35,767
Other receivables	484	-	484
Cash	2,090	-	2,090
Other assets	439	20[2]	459
New intangible assets identified during the acquisition, including:	300	-	300
- trademark	100	-	100
- customer relations	200	-	200
Total assets	**39,668**	**(57)**	**39,611**
Financial liabilities	35,921	-	35,921
Other liabilities	568	29	597
- including liability arising from unfavorable (generating charges) property lease agreements.	-	29	29
Non-controlling interest	1	-	1
Fair value of net assets acquired	**3,178**	**(86)**	**3,092**

[1] Amount adjustment results from the final determination of the fair value of credit receivables portfolio of Alior Bank.

[2] Amount adjustment results from the determination of the value of deferred tax assets concerning the measurement of credit receivables and liability arising from unfavorable (generating charges) property lease agreements.

(in PLN million)

Calculation of goodwill	Provisional settlement	Adjustment	Final settlement
Consideration transferred (tranche II and III) - in cash	988	-	988
Value of non-controlling interest (a 70.78% share in fair value of Alior Bank net assets)	2,250	(61)	2,189
Fair value of shares held at the acquisition date	661	-	661
Fair value of net identifiable assets of Alior Bank	(3,178)	86	(3,092)
Goodwill	**721**	**25**	**746**

The company's goodwill will not decrease the taxable income.

Increase of cash balance of PZU Group by PLN 2,090 million is recognized under "increase in cash inflows due to the acquisition of entities and changes in the scope of consolidation" line in the consolidated cash flows statement.

2.4.1.3. Acquisition of shares in health care companies

Centrum Medyczne Cordis sp. z o.o.

On 1 February 2016, PZU Zdrowie SA acquired 7,312 shares in Centrum Medyczne Cordis sp. z o.o., representing 100% of the share capital of Centrum Medyczne Cordis sp. z o.o. and 100% of votes at the General Shareholders' Meeting with a nominal value of PLN 50 each.

Since the acquisition date, which is 1 February 2016, CM Cordis sp. z o.o. has been subjected to consolidation.

Polmedic sp. z o.o. and SPMP

On 30 November 2016, PZU Zdrowie SA acquired 145 shares in Polmedic sp. z o.o., representing 100% of the share capital and 100% of votes at the General Shareholders' Meeting with a nominal value of PLN 521 each.

PZU also became an indirect owner of 40 shares of SPMP with a nominal value of PLN 1,250 each, representing 100% of the share capital, which entitles to 100% of votes at the General Shareholders' Meeting.

Since the acquisition date, which is 30 November 2016, Polmedic sp. z o.o. and SPMP have been subjected to consolidation.

Artimed

On 21 December 2016, PZU Zdrowie SA acquired 100 shares of Artimed, representing 100% of the share capital and 100% of votes at the General Shareholders' Meeting with a nominal value of PLN 500 each.

Since the acquisition date, which is 21 December 2016, Artimed has been subjected to consolidation.

Purchase price allocation for the acquisitions of health care companies

The purchase price allocation of the acquisitions of shares in subsidiaries were carried out based on data concerning these entities collected as at 31 January 2016 (Centrum Medyczne Cordis sp. z o.o.), 30 November 2016 (Polmedic sp. z o.o. and SPMP), and 31 December 2016 (Artimed).

During the calculation of goodwill, assets and liabilities were measured at fair value.

(in PLN million)

Fair value of the acquired assets at the acquisition date	Final settlement
Intangible assets	1
Property, plant and equipment	3
Financial assets	2
Receivables	4
Deferred tax assets	2
Other assets	1
Total assets	**13**
Liabilities	4
Share in fair value of the net assets acquired	**9**
Fair value of consideration transferred – in cash	41
Calculated goodwill	**32**

The company's goodwill will not decrease the taxable income.

2.4.1.4. Acquisition of SKOK by Alior Bank

In 2016, Alior Bank acquired two SKOKs (Cooperative Savings and Credit Unions). As at the acquisition date, Alior Bank assumed all rights and obligations of the acquired unions (pursuant to Article 74c section 4 of the Act on Cooperative Savings and Credit Unions).

The acquisitions did not entail a payment made by Alior Bank. This process was conducted with financial support provided by BGF pursuant to Article 20g of the Bank Guarantee Fund Act. Alior Bank received support from BGF in a form of a subsidy to cover the difference between the value of acquired equity rights and the value of liabilities arising from guaranteed funds on depositors' accounts.On 26 January 2016, PFSA made a decision on taking over Kasa Oszczędnościowo-Kredytowa im. Stefana Kard. Wyszyńskiego ("SKOK Wyszyńskiego") by Alior Bank. On 27 January 2016, Alior Bank assumed management over the assets of SKOK Wyszyńskiego, and as of 1 March 2016 it took over SKOK Wyszyńskiego.

On 26 April 2016, PFSA issued a decision concerning taking over Powszechna Spółdzielcza Kasa Oszczędnościowo-Kredytowa in Knurów ("Powszechna SKOK") by Alior Bank. As of 27 April 2016, Alior Bank assumed management of Powszechna SKOK's assets. On 1 June 2016, Powszechna SKOK was taken over by Alior Bank as an acquirer.

(in PLN million)

Settlement of acquisition of SKOK

Fair value of the acquired assets and liabilities at the acquisition date	
Financial assets	136
Other assets	2
Total assets	**138**
Liabilities to clients guaranteed by BGF	200
Other liabilities	10
Fair value of net assets acquired	**(72)**

Calculation of goodwill	
Price paid	-
Fair value of net assets acquired	(72)
Estimated subsidy from BGF	62
Goodwill	**10**

Goodwill was generated in the part not covered by the BGF subsidy (mainly trade liabilities), which was immediately written-off.

2.4.1.5. Financial data of the acquired entities

The following table presents financial data concerning the Core Activity of Bank BPH included in the consolidated statement of profit or loss. The data have been prepared in accordance with IFRS and they relate to the period in which the Core Activity of Bank BPH was controlled by PZU Group (4 November 2016 – 31 December 2016). Due to their irrelevance, the data concerning other entities acquired in 2016 (Centrum Medyczne Cordis sp. z o.o., Polmedic sp. z o.o., SPMP, and Artimed) have not been included.

Consolidated statement of profit or loss	The Core Activity of Bank BPH
Revenue from commissions and fees	45
Net investment income	97
Net result on realization and impairment losses on investments	(12)
Net change in the fair value of assets and liabilities measured at fair value	4
Other operating income	26
Costs of commissions and fees	**(27)**
Interest expense	(12)
Administrative expenses	(111)
Other operating expenses	(312) [1)]
Operating profit (loss)	**(302)**
Gross profit (loss)	(302)
Income tax	52
Net profit (loss)	(250)
- profit (loss) attributable to owners of the parent entity	(73)
- profit (loss) attributable to non-controlling interest	(177)

[1)] including the costs of integration borne until 31 December 2016 in the amount of PLN 37 million and the cost of restructuring provision in the amount of PLN 268 million.

(in PLN million)

2.4.1.6. Consolidated statement of profit or loss, including acquired entities

The following table presents income and profit of PZU Group, including the financial data of the acquired subsidiaries calculated as if the acquisition date for all combinations performed throughout the year was the beginning of the financial year.

Consolidated statement of profit or loss	1 January- 31 December 2016
Gross written premiums	20,219
Reinsurers' share in gross written premiums	(431)
Net written premiums	19,788
Change in net unearned premiums reserve	(1,163)
Net earned premiums	18,625
Revenue from commissions and fees	1,033
Net investment income	4,691
Net result on realization and impairment losses on investments	(995)
Net change in the fair value of assets and liabilities measured at fair value	336
Other operating income	1,518
Insurance claims, benefits, and change in technical provisions	(12,888)
Reinsurers' share in claims, benefits, and change in technical provisions	156
Net insurance claims and benefits	(12,732)
Costs of commissions and fees	(420)
Interest expense	(833)
Acquisition costs	(2,613)
Administrative expenses	(3,398)
Other operating expenses	(2,163)
Operating profit	3,049
Share in net financial result of companies measured using the equity method	(3)
Profit before tax	3,046
Income tax	(589)
Net profit, including:	**2,457**
- profit attributable to owners of the parent entity	**1,959**
- profit (loss) attributable to non-controlling interest	**498**

2.4.2. Changes in the scope of consolidation of investment funds

The assumptions made by PZU Group upon consolidation of investment funds have been presented in point 6.1.1.

Due to the loss of control over the funds of PZU Akcji Rynków Wschodnich and PZU FIZ Akcji Focus, the consolidation was ceased on 1 July 2016. It resulted in the reduction of cash balance of PZU Group by PLN 7 million (in "decrease in cash inflows due to changes in the scope of consolidation" line in the consolidated cash flow statement).

Due to gaining control over the funds of PZU FIZ Forte, the funds have been subjected to consolidation since 1 July 2016. As a result, the increase in cash balance of PZU Group by PLN 32 million has been recognized (under "increase in cash inflows due to the acquisition of entities and changes in the scope of consolidation" line in the consolidated cash flows statement.

In addition, the following newly-established funds have been subjected to consolidation: PZU FIO Globalny Obligacji Korporacyjnych (since 30 May 2016), PZU Telekomunikacja Media Technologia (since 7 September 2016), PZU Dłużny Aktywny (since 26 October 2016), and PZU FIZ Aktywów Niepublicznych Witelo Fund (since 30 November 2016).

2.4.3. Purchase of shares of Lietuvos Draudimas AB

On 27 September 2016, the District Court in Vilnius approved of the compulsory purchase of Lietuvos Draudimas AB shares from the minority shareholders. The judgment of the court came into force as of 27 October 2016. Since 14 November 2016, PZU has been an official owner of 188 shares of Lietuvos Draudimas AB with the nominal value of EUR 14.48. The purchase price amounted to EUR 237.16 per share, that is, EUR 45 thousand for all the shares.

2.4.4. Międzyzakładowe Pracownicze Towarzystwo Emerytalne SA

On 9 June 2016, Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA in liquidation was deleted from the National Court Register.

2.4.5. Sale of Armatura Tower sp. z o.o.

On 16 June 2016, Armatura Kraków SA sold all shares in Armatura Tower sp. z o.o., which constituted a joint-venture. The loss of PLN 8 thousand resulting from the sale of Armatura Tower sp. z o.o. shares is recognized in the consolidated statement of profit or loss under "Net result on realization and impairment losses on investments".

(in PLN million)

2.5 Additional share capital issuance by Alior Bank

On 24 June 2016, the share capital of Alior Bank was increased in the National Court Register by 56 550 249 ordinary series I bearer shares with a nominal value of PLN 10 and issue price of PLN 38.90 each.

PZU Group acquired 16,525,801 shares, accounting for 29.22% of the new shares (in proportion to the currently owned share) for the total price of PLN 643 million. As a result of the transaction, the share of PZU Group in Alior Bank share capital and voting rights at the General Shareholders' Meeting of Alior Bank did not change.

3. The shareholding structure

Table below presents PZU's shareholders structure, including shareholders holding at least 5% of votes at the General Shareholders Meeting of PZU:

At 31 December 2016

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

[1)] According to the current report no. 17/2017 on the list of shareholders who hold at least 5% of votes at the Extraordinary Shareholders' Meeting of PZU opened on 18 January 2017 and ended on 8 February 2017.

At 31 December 2015

No.	Shareholder's name	Number of shares and votes at GSM	Share percentage in the share capital and total number of votes at GSM
1	State Treasury	297,420,578 [1)]	34.4427%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	49,156,660 [1)]	5.6926%
3	Other shareholders	516,945,762	59.8647%
Total		**863,523,000**	**100.00%**

[1)]According to the current report no. 3/2016 on the list of shareholders who hold at least 5% of votes at the Extraordinary Shareholders' Meeting of PZU on 7 January 2016.

Information on the number of shares included in the calculation of profit per share is presented in point 25.

Transactions involving significant packages of PZU shares

In the period from 1 January 2016 to the date of signing the consolidated financial statements, there were no significant changes in the ownership structure of significant PZU's shares packages.

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

4.1 Composition of the parent entity's Management Board

From 1 January 2016, the composition of the Management Board of PZU was as follows:

- Dariusz Krzewina – acting President of the Management Board;
- Przemysław Dąbrowski – Member of the Management Board;
- Rafał Grodzicki – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board.

On 19 January 2016, Tomasz Tarkowski and Rafał Grodzicki resigned from their position as Members of the Management Board, effective as of 19 January 2016.

On 19 January, the Supervisory Board of PZU appointed Michał Krupiński, Roger Hodgkiss, Beata Kozłowska-Chyła, Robert Pietryszyn, and, on 20 January 2016, Paweł Surówka as Members of the Management Board.

On 18 March 2016, Przemysław Dąbrowski resigned from the position of Member of the Management Board, effective as of 18 March 2016.

On 19 March 2016, Paweł Surówka resigned from the position of Member of the Management Board, effective as of 19 March 2016.

On 19 March 2016, the Supervisory Board of PZU appointed Sebastian Klimek and Maciej Rapkiewicz as Members of the Management Board, effective as of 22 March 2016.

On 13 May 2016, Robert Pietryszyn resigned from the position of Member of the Management Board, effective as of 13 May 2016.

On 13 May 2016, the Supervisory Board of PZU appointed Andrzej Jaworski as Member of the Management Board, effective as of 14 May 2016.

On 23 June 2016, Dariusz Krzewina resigned from the position of Member of the Management Board, effective as of 23 June 2016.

On 30 August 2016, Sebastian Klimek resigned from the position of Member of the Management Board, effective as of 30 August 2016.

On 14 October 2016, Beata Kozłowska-Chyła resigned from the position of Member of the Management Board, effective as of 17 October 2016.

On 14 October 2016, the Supervisory Board of PZU appointed Tomasz Kulik as Member of the Management Board, effective as of 14 October 2016.

The appointments apply to the common term of office which began on 1 July 2015 and will cover three consecutive full financial years. The first full financial year of the term is 2016.

From 18 October 2016 to the date of signing the consolidated financial statements, the composition of the Management Board of PZU was as follows:

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

- Maciej Rapkiewicz – Member of the Management Board.

4.2 Composition of the parent entity's Supervisory Board

From 1 January 2016, the composition of the Supervisory Board of PZU was as follows:

- Zbigniew Ćwiąkalski – President of the Supervisory Board;
- Paweł Kaczmarek – Vice-President of the Supervisory Board;
- Dariusz Filar – Secretary of the Supervisory Board;
- Zbigniew Derdziuk – Member of the Board;
- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

On 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU dismissed Zbigniew Ćwiąkalski, Zbigniew Derdziuk, Maciej Piotrowski, Dariusz Kacprzyk, Jakub Karnowski, Aleksandra Magaczewska, and Dariusz Filar from the Supervisory Board.

At the same time, on 7 January 2016, the Extraordinary General Shareholders' Meeting of PZU appointed the following Members of the Supervisory Board of PZU: Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzeszcz, and Maciej Zaborowski.

On 19 January 2016, Paweł Kaczmarek was appointed as President of the Board, Marcin Gargas was appointed as Vice-President of the Board, and Maciej Zaborowski was appointed as Secretary of the Board.

On 1 July 2016, Jerzy Paluchniak resigned from the membership in the Supervisory Board. On 1 July 2016, the General Shareholders' Meeting of PZU appointed Piotr Walkowiak as Member of the Supervisory Board, effective as of 2 July 2016.

On 7 July 2016, the Minister of Treasury of the Republic of Poland, acting under §20 Section 7 of PZU Bylaws, appointed Jerzy Paluchniak as Member of the Supervisory Board.

On 4 August 2016, Piotr Walkowiak resigned from the position of Member of the Supervisory Board, effective as of 4 August 2016.

On 8 February 2017, Eligiusz Krześniak resigned from the position of Member of the Supervisory Board, effective as of 8 February 2017.

On 8 February 2017, the Extraordinary General Shareholders' Meeting of PZU dismissed Marcin Gargas, Piotr Paszko, and Radosław Potrzeszcz from the Supervisory Board. On the same day, the Extraordinary General Meeting of Shareholders appointed Bogusław Banaszak, Paweł Górecki, Agata Górnicka, and Łukasz Świerżewski as Members of the Supervisory Board.

From 8 February 2017 to the date of signing the consolidated financial statements, the composition of the Supervisory Board of PZU was as follows:

- Paweł Kaczmarek – President of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Bogusław Banaszak– Member of the Board
- Marcin Chludziński – Member of the Board;
- Paweł Górecki – Member of the Board;
- Agata Górnicka – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;

- Łukasz Świerżewski – Member of the Board;

4.3 Directors in the Group

Along with the Members of the Management Board, key managing personnel in PZU Group includes PZU Group Directors, who are also members of the Management Board in PZU Życie.

Directors at PZU Group from 1 January 2016:

- Tobiasz Bury;
- Przemysław Henschke;
- Sławomir Niemierka.

On 29 January 2016, Tobiasz Bury and Przemysław Henschke were dismissed from their positions of Directors of PZU Group and Tomasz Karusewicz was appointed as one. On 15 February 2016, Roman Pałac was appointed as Director of PZU Group, and on 25 March 2016, Aleksandra Agatowska was appointed to this position as well.

On 2 September 2016, Bartłomiej Litwińczuk was appointed as Director of PZU Group, effective as of 19 August 2016.

On 25 October 2016, Paweł Surówka was appointed as Director of the Group, effective as of 1 November 2016.

Directors of PZU Group from 1 November 2016 to the date of signing the consolidated financial statements:

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

5. Summary of significant accounting policies

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

5.1 Changes in accounting policies, accounting estimates and errors

The accounting policies are changed only if the change:

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

Changes in accounting policies upon initial application of IFRS are applied in accordance with transitional provisions included in IFRS. When changes in accounting policies are made upon initial application of IFRS that do not include specific transitional provisions applying to that change, or the changes are made voluntarily, the entity shall apply the change retrospectively. Retrospective application of a change in accounting policy requires to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The items of financial statements determined based on accounting estimates shall be subject to verification if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The results of a change in estimates shall be accounted for prospectively. This means that the amounts concerning transactions, other events and conditions are adjusted from the moment when the change occurred (the change impacts only the current statement of comprehensive income or the results in a given period and future periods).

It is assumed that errors are adjusted in the period when they were made (and not detected). Thus, essential errors from previous periods shall be adjusted retrospectively, and the differences are charged to equity.

(in PLN million)

5.1.1. Changes in the applied IFRS

5.1.1.1. Standards and interpretations as well as changes in standards effective from 1 January 2016

The following new standards, interpretations and changes in standards have been applied to these consolidated financial statements:

Standard/Interpretation	Date of entry into force for periods beginning on the following day	Resolution endorsing a standard or interpretation	Description
Amendment to IAS 16 and IAS 41 – Bearer plants	1 January 2016	2113/2015	The amendment introduces a definition of bearer assets and removes them from the scope of the application of IAS 41 by moving them to IAS 16, which results in change in the method of valuation. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendment to IFRS 11 – Settlement of acquisition of shares in a joint venture	1 January 2016	2173/2015	The amendment clarifies that the purchaser of the shares in joint operations must comply with all the rules regarding acquisition accounting under IFRS 3 and other IFRSs that are not in conflict with IFRS 11 and disclose the information required by these standards. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendment to IAS 16 and IAS 38 – explanation of acceptable methods of depreciation	1 January 2016	2231/2015	The amendment clarifies that the adoption of depreciation methods based on revenues generated by the assets is not appropriate. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2012–2014	1 January 2016	2343/2015	Amendment to IFRS 5 – adding guidance on how to reclassify assets held for sales to assets held for distribution to owners and conversely, and instances of discontinued classification of assets held for distribution to owners. Amendment to IFRS 7 – adding guidance on how to conduct disclosures of contracts on handling assets and explanations of amendments applied to IFRS 7 concerning offsetting in condensed interim financial statements. Amendment to IFRS 19 – explanation that high quality corporate bonds used for the estimation of the discount rate applied to calculate post-employment benefits shall be denominated in the same currency in which the benefits will be paid (hence, the market activity concerning the bonds should be evaluated at the currency level). Amendments to IAS 34 – clarification of terms. The aforesaid changes did not exert any effect on the consolidated financial statements of PZU Group.
Amendment to IAS 1 – Disclosure initiative	1 January 2016	2406/2015	Adding requirements with respect to an orderly layout of financial statements, introduction of the requirement of reconciling indirect totals in the statement of profit or loss, comprehensive statement of profit or loss, statement of financial standing, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment resulted in minor modifications of the layout of basic tables in the consolidated financial statements of PZU Group.

(in PLN million)

Standard/Interpretation	Date of entry into force for periods beginning on the following day	Resolution endorsing a standard or interpretation	Description
Amendment to IAS 27 – Equity method in the separate financial statements	1 January 2016	2441/2015	The amendment allows entities to use the equity method in the valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: exemptions from consolidation applied	1 January 2016	1703/2016	IFRS 10 – adding supplementary guidance instructing investment entities to perform obligatory consolidation of non-investment subsidiaries rendering services related to investment; adding guidance on the lack of duty to perform consolidated statements in the case of lower-level parent entities being subsidiaries of investment entities. IAS 28 – adding guidance on the application of measurement using the equity method by an investor not being an investment entity with respect to an associated investment entity or a joint-venture. The aforesaid changes did not exert any effect on the consolidated financial statements of PZU Group.

5.1.1.2. Standards, interpretations and changes in standards issued but not effective as at the balance sheet date

The following standards, interpretations and changes in standards have been issued but are not effective as at the balance sheet date:

- Endorsed by the European Commission ordinance:

Standard/Interpretation	Date of entry into force for periods beginning on the following day	Resolution endorsing a standard or interpretation	Description
IFRS 15 – Revenue from contracts with customers	1 January 2018	1905/2016	IFRS 15 defines how and when to recognize revenues and requires the provision of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard concerns the recognition of revenues in such a way as to reflect the transfer of goods or services to customers and in such amount that reflects the amount of remuneration (i.e. payments), to which the company expects to obtain the rights in exchange for goods or services. The standard provides also guidelines for recognition of transactions which were not regulated in detail by the hitherto applicable standards (e.g. revenues from services or amendments of contracts), as well as broader explanations concerning recognition of multi-element contracts. Due to the lack of application in relation to insurance companies of PZU Group, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated.

Standard/Interpretation	Date of entry into force for periods beginning on the following day	Resolution endorsing a standard or interpretation	Description
IFRS 9 – Financial instruments	1 January 2018	2067/2016	The standard will replace IAS 39, and it establishes the requirements regarding the recognition and measurement of impairment, derecognition of financial instruments and hedge accounting. The standard introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model associated with the given assets. The standard unifies the impairment model for all financial instruments. The new expected loss impairment requires faster recognition of expected credit losses. The standard introduces a reformed model of hedge accounting, with enhanced disclosure requirements for the activity related to risk management. Classification and measurement In accordance with IFRS 9, financial assets are classified for valuation in: •amortized cost; •fair value through profit or loss; •fair value through other total income. The instruments are classified at first application of IFRS 9 or at instrument recognition. Classifications can change only in the extremely rare instances of changes to the business model. Debt instruments Asset classification results from the business model and characteristics of cash flow generated by individual assets. The business model determines the objective of maintaining the financial instrument (acquisition of contractual cash flows or implemented change to fair value). The characteristics of cash flows determine whether they are only solely principal and interest (SPPI) understood as the cost of money in time. If the instrument passes the SPPI test and the business model assumes maintenance of the instrument for acquisition of contractual cash flows, the debt instrument qualifies for valuation in amortized cost. The entity can choose valuation in fair value by financial result if it eliminates inconsistencies in valuation methods. Valuation in fair value by other total income covers instruments, for which the business model assumes both acquisition of contractual cash flows or and profit through sale of the instrument. The option applies only to instruments passing the SPPI test. For this option, the total changes to fair value apply to other total income while impairment losses, interest revenue, and currency differences are presented in the bill of gains and losses. Capital assets Capital assets may be measured at fair value through financial result or through other total income. For the second option, the changes to fair value apply to other total income and are never subject to transfer to the bill of gains and losses. The dividends and impairment losses from such assets are covered in the bill of gains and losses:

Standard/Interpretation	Date of entry into force for periods beginning on the following day	Resolution endorsing a standard or interpretation	Description
			Financial liabilities Valuation of financial liabilities does not change considerably besides the need to recognize the change to fair value resulting from the changes to own credit risk in other total income. Impairment IFRS 9 introduces the obligation to recognize expected losses and not just incurred losses like in accordance with IAS 39. For debt assets valuated in amortized cost and in fair value by other total income, the impairment will be measured as 12-month or lifelong expected credit losses. The new approach will entail considerable consequences for modeling of credit risk parameters and the ultimate value of created losses. The currently applied impairment identification period and IBNR will no longer be applied. The impairment will be determined in three categories: •basket 1 – low credit risk basket – a 12-month expected credit loss will be recognized; •basket 2 – portfolio with considerable credit risk growth – a lifelong expected credit loss will be recognized; •basket 3 – credits with impairment – a lifelong expected credit loss will be recognized; The way of impairment loss calculation will also determine the recognition of interest income – it will be determined based on gross exposure for baskets 1 and 2 and based on net for basket 3. Hedge accounting On the date of implementation of IFRS 9, there is an option for a decision concerning continuation of hedge accounting in accordance with IAS 39. In this case, cohesion between appropriate hedge connections and risk management strategy should be ensured. Furthermore, IFRS 9 increases the range of items for establishment as hedge items, allows for establishment of financial assets or liabilities in fair value by financial result as hedge instruments, cancels the obligation or retrospective hedge effectiveness management, increases the range of required disclosures concerning management of cash flow risks resulting from hedge transactions and the effect of hedge accounting on the financial statement. PZU Group reviews financial assets and assigns them to the appropriate business model. Implementation of IFRS 9 may produce changes in classification of certain financial assets (specifically the need for valuation of certain receivables from credits in fair value due to the failure of the SPPI test). The introduction of the new impairment model will affect the value of impairment losses in PZU Group, specifically in range of exposure classified in basket 2. At the implementation of IFRS 9, the one-off change resulting from the new models will be recognized in capital. At this stage, it is not possible to estimate the impact of IFRS 9 on the total income and equity PZU Group.

- Not endorsed by the European Commission:

(in PLN million)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendment to IFRS 4 – Implementation of IFRS 9 Financial Instruments including IFRS 4 Insurance Contracts	12 September 2016	1 January 2018	Under the amendment to IFRS 4 issued by IASB on 12 September 2016, insurance companies are entitled to postpone the implementation of IFRS 9 until the time of entry into force of IFRS Phase II concerning insurance contracts, yet no later than 1 January 2021. PZU Group, however, is not authorized to enjoy this exemption due to significant share of bank activity.
IFRS 14 – Regulatory accruals	30 January 2014	1 January 2016 [1)]	Allowing entities applying IFRS for the first time, and which now the regulatory deferral accounts in accordance with their previous generally accepted accounting principles, the continuation of the recognition of these balances in the transition to IFRS. The standard does not affect PZU Group.

(in PLN million)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Explanation to IFRS 15 – Revenue from contracts with customers	12 April 2016	1 January 2018	Explanation provides guidelines concerning the identification of obligations to be fulfilled (determining in which cases the provisions included in the agreement are "separate" goods or services which shall be settled separately), accounting of licenses with respect to intellectual property (determining in which cases the revenue from licenses regarding intellectual property shall be settled "over a specific period" and in which cases at "a given point in time"), and the distinction between a principal and an agent (clarifying that a principal, within the scope of a given arrangement, controls the goods or services before they are received by clients). Amendments to the standard include also additional practical solutions which make the implementation of a new standard easier.
IFRS 16 – Leasing	13 January 2016	1 January 2019	IFRS 16 replaced IAS 17 *Leasing* and the related interpretations of the standard. With respect to lessees, the new standard eliminates the distinction between finance and operating leases. The recognition of current operating leases in the statement of financial standing leads to the recognition of a new asset (the right to use the object of lease) and a new liability (liabilities from lease payments). The rights to use the leased assets will be subject to accumulated depreciation and the liabilities will be charged with interest. As a result, higher costs in the initial stage of the lease will be generated, even if the parties agreed on fixed annual fees. The recognition of leases in most cases will remain unchanged, as the distinction between operating and finance leases did not change. Due to the long lead time of entry into force of the new standard, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated yet.
Amendment to IAS 7 – Disclosure initiative	29 January 2016	1 January 2017	The amendment includes the presentation of disclosures enabling the assessment of changes in the value of liabilities arising from financial activities (resulting both from cash flows and non-cash changes). In order to apply the requirements, additional disclosures will need to be included in the consolidated financial statements of PZU Group.
Amendment to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	The amendment clarifies, among other things, that unrealized losses related to debt instruments measured at fair value, with tax values equal to their initial cost, may lead to negative temporary differences. The amendment will not affect the consolidated financial statements of PZU Group.

(in PLN million)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendment to IFRS 2 – Classification and measurement of share-based payment transactions	20 June 2016	1 January 2018	The amendment covers the guidance unifying the accounting requirements for the cash-settled share-based payment transactions, which adopts the same approach as in the case of equity instruments-settled share-based payment transactions, an exception in IFRS 2, and the explanation to the situation in which cash-settled share-based payment changes into equity instruments-settled share-based payment due to a change in the contractual terms. The amendment will not affect the consolidated financial statements of PZU Group.
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associate or a joint venture	11 September 2014	Deferred for an indefinite time	The major effect of the amendment is recognition of the full profit or loss whenever a transaction concerns organized business (irrespective of whether it is located within a subsidiary or not); partial profits or losses are recognized when a transaction concerns particular assets that do not form organized business, even when they are located in a subsidiary. The amendments will not affect the consolidated financial statements of PZU Group.
Amendment to IAS 40 – Reclassification of investment property	8 December 2016	1 January 2018	The amendment clarifies when an entity shall reclassify property under construction to or from the category of investment property if the manner in which property is used changes in the situations other than precisely listed in IAS 40. The amendment will not affect the consolidated financial statements of PZU Group.
Amendments to IFRS 2014-2016	8 December 2016	1 January 2017/ 1 January 2018	Amendments concern: 1. IFRS 1 – abolition of exemptions provided for entities applying IFRS for the first time in the scope of certain disclosure; 2. IFRS 12 – disclosure concerning assets classified as held for sale or discontinued operations in accordance with IFRS 5; 3. IAS 28 – concerning capabilities of given entities to make individual decisions with respect to the measurement of shares in associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. The amendments will not affect the consolidated financial statements of PZU Group.
Interpretation of IFRIC 22 – Transactions in foreign currencies and prepayments	8 December 2016	1 January 2018	The interpretation clarifies what exchange rate shall be applied with respect to transactions denominated in the foreign currency in accordance with IAS 21 if a client makes non-refundable prepayment for delivery of goods or services. The interpretation will not affect the consolidated financial statements of PZU Group.

[1)] European Commission put on hold the approval process by the time the final version of the standard has been published.

Summing up, PZU Group is of the opinion that the introduction of the aforementioned standards and interpretation will not considerably impact the accounting policies applied by PZU Group, except for IFRS 9 and 15, whose impact on the accounting policies applied by PZU Group has not been assessed yet.

5.1.2. Explanation of differences between the statements published previously and the current consolidated financial statements

5.1.2.1. Change in presentation of amounts in the consolidated financial statements

To improve legibility of the consolidated financial statement, all amounts are presented in PLN millions instead of in PLN thousands as previously. Due to the conversation from thousands to millions, some amounts presented in the consolidated financial statement may differ from the values presented in the consolidated financial statement for the year concluded on 31 December 2015 because of round-offs.

5.1.2.2. Change in the manner of drafting the consolidated cash flows statement

In the consolidated cash flow statement, cash flows from operating activity have been presented using indirect method, rather than direct one applied before. The change results from recognition of the banking activity and is aimed to produce the cash flow statement that is consistent with the market practice and easily comparable with other financial statements.

5.1.2.3. Changes in the manner of grafting the segment reports

To improve clarity, the reports on segments are presented in a modular system (separate tables for individual segments) instead of the previous matrix system. Simultaneously, changes were made to the calculation of the result on corporate and mass insurance through elimination of intra-segment transactions.

5.1.2.4. Purchase price allocation of the acquisition of shares of Alior Bank

In relation to the completion of the purchase price allocation of the acquisition of Alior Bank shares, the retrospective restatement of data as at 31 December 2015 was made. Additional information concerning this settlement is presented in point 2.4.1.2.

5.1.2.5. Derecognition of items in the consolidated statement of financial standing

Due to the irrelevance of the amounts, in order to provide greater transparency of the consolidated statement of financial standing, the items "Estimated salvages and subrogations" and "Current income tax receivables" have been removed from the assets. The related amounts previously recognized under these items have been moved to "Other assets" and "Receivables". The item "Current income tax liabilities" has been removed from the liabilities and the amount has been recognized under "Liabilities".

5.1.2.6. Amendment to the presentation of liabilities arising from securities lending

In order to provide greater transparency of the consolidated statement of financial standing, the liabilities arising from securities lending were presented under "Financial liabilities", and not under "Other liabilities", as it was done before.

(in PLN million)

5.1.2.7. Recognition of interests received in the consolidated cash flow statement

In order to ensure the most adequate recognition of interests received on debt instruments, in the investment activity of the consolidated cash flow statement income from such interests were moved from "Redemption of debt instruments" and is presented under "Interest received".

5.1.2.8. Effect of the amendments on the consolidated financial statements

The effect of the above-mentioned amendments on the items of the consolidated statement of financial standing is presented in the following tables.

Assets	**31 December 2015** *(approved)*	**Adjustment**	**31 December 2015** *(restated)*	**1 January 2015** *(approved)*	**Adjustment**	**1 January 2015** *(restated)*
Goodwill	1,507	25 [1)]	1,532	769	-	769
Other assets	699	114 [2)]	813	235	128 [2)]	363
Estimated subrogations and salvages	114	(114) [2)]	item removed	128	(128) [2)]	item removed
Deferred tax assets	349	20 [1)]	369	27	-	27
Financial assets - loans	43,403	(77) [1)]	43,326	14,694	-	14,694
Receivables	3,271	67 [2)]	3,338	3,085	-	3,085
Current income tax receivables	67	(67) [2)]	item removed	-	-	item removed
Total assets	**105,429**	**(32)** [1)]	**105,397**	**67,573**	**-**	**67,573**

(in PLN million)

Equity and liabilities	31 December 2015 *(approved)*	Adjustment	31 December 2015 *(restated)*	1 January 2015 *(approved)*	Adjustment	1 January 2015 *(restated)*
Non-controlling interest	2,255	(61) [1]	2,194	1	-	1
Total equity	**15,179**	**(61) [1]**	**15,118**	**13,168**	**-**	**13,168**
Financial liabilities	44,488	207 [3]	44,695	9,403	-	9,403
Other liabilities	3,679	29 [1] (207) [3] 69 [2]	3,570	3,820	54 [2]	3,874
Current income tax liabilities	69	(69) [2]	item removed	54	(54) [2]	item removed
Total liabilities	**90,250**	**29 [1]**	**90,279**	**54,405**	**-**	**54,405**
Total equity and liabilities	**105,429**	**(32) [1]**	**105,397**	**67,573**	**-**	**67,573**

[1] Change described in 5.1.2.4.
[2] Change described in5.1.2.5
[3] Change described in 5.1.2.6

Consolidated cash flows statement	31 December 2015 *(approved)*	Adjustment	31 December 2015 *(restated)*
Redemption of debt instruments	45,542	(324) [1]	45,218
Interest received	1,413	324 [1]	1,737
Cash inflows from investment activities	**645,441**	**-**	**645,441**

[1] Change described in point 5.1.2.7

5.2 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2016 include data of the parent entity and all its subsidiaries after elimination of intercompany transactions.

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

In case of losing control over an investment fund, its consolidation is being ceased and the assets and liabilities of this fund are being excluded from the consolidated statement of financial standing, as well as potential liabilities to its participants. In exchange, the participation units or investment certificates that correspond with the fair value of shares of PZU Group in net assets of such a fund are presented in the statement.

Consolidation involves combining similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent entity and its subsidiaries. Then, the carrying amount of the parent entity's investment in each subsidiary is eliminated along with the part of equity of each subsidiary that corresponds to the share of the parent entity. Moreover, the assets and liabilities, revenue, costs and cash flows related to the intra-group transactions within PZU Group are eliminated in full.

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

Subsidiaries are subject to consolidation from the commencement of control until the cessation of control.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies have been presented in point 5.3.

(in PLN million)

5.3 Recognition of foreign currency transactions and balances and applied exchange rates

Transactions executed in currency other than PLN are recognized at the NBP exchange rate valid for the transaction date. As at the end of the financial year, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Exchange differences from translation are charged directly to the statement of profit or loss.

Financial data of foreign subsidiaries are translated into PLN:

- assets and liabilities – at the average National Bank of Poland exchange rate established as at the end of the financial year;
- items in the statement of profit or loss and other comprehensive income – at rates determined as the arithmetic mean of the rates published by the National Bank of Poland, valid as at the last day of each month of the financial year.

Exchange differences are recognized under "Exchange differences from translation" in equity.

The following exchange rates have been applied in the consolidated financial statements:

Currency exchange rates adopted to translate financial data of foreign operations	1 January– 31 December 2016	1 January– 31 December 2015	31 December 2016	31 December 2015
EUR	4.3757	4.1848	4.4240	4.2615
UAH	0.1542	0.1722	0.1542	0.1622

5.4 Acquisition method

The acquisition of subsidiaries by PZU Group is settled for using the acquisition method.

In the case of every acquisition transaction, an acquirer is determined as well as the acquisition date being the day on which it obtains control of the acquiree. On the acquisition date, identifiable assets acquired, liabilities assumed and non-controlling interest in the acquiree are recognized separately from goodwill.

All identifiable assets acquired and liabilities assumed are measured at acquisition-date fair value.

In the case of every acquisition, all non-controlling interest in an acquiree are measured at value of a proportional share in fair value of identifiable net assets of the acquiree.

Determining goodwill or gain from a bargain purchase

Goodwill is measured and recognized as at the acquisition date as the difference between:

- the consideration transferred measured at their acquisition-date fair value;
- non-controlling interest in the acquiree, measured as described above;
- fair value of share in capital of the acquired entity owned by PZU Group prior to the acquisition date;

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

If the net fair values of identifiable assets acquired and the liabilities assumed exceeds the fair value of payment received, the gain from bargain purchase is recognized in the consolidated statement of profit or loss. Before the gain from bargain purchase is recognized, the reassessment is made to verify if all of the acquired assets and all of the liabilities assumed were correctly identified.

In the period of maximum 1 year from taking the control, PZU Group may retrospectively adjust provisional fair values of assets and liabilities recognized as at the acquisition date, so as to reflect new information obtained concerning the facts and circumstances at the acquisition date, which, if known, could have an effect on measurement of these assets and liabilities. Such adjustments are charged directly to the recognized goodwill or profit from one-off acquisition.

Intangible assets

Intangible assets acquired on business combination transactions are recognized at fair value as at the acquisition date. Fair value of intangible assets reflects expectations as to the probability that the entity achieves economic benefits from a given asset. Fair value of intangible assets is determined in the following manner:

- trademark – using the relief-from-royalty method, based on potential savings on the license fees the entity will not be charged with being the owner of the trademark (i.e. the present value of future license fees). Determining the market rate of license fees involves an analysis of license rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical license payments are established, defined as the product of the adopted license fee and the value of estimated revenue from sales. In order to calculate the net income from license, license payments should be reduced by the hypothetical amount of income tax. To the calculated net cash flows the potential tax savings on tax depreciation of a trademark should be added, the so-called TAB (tax amortization benefit). Finally, the indicated cash flows are discounted using the discount rate reflecting, among others, the typical risk of a given trademark;
- broker and customer relations – using the MEEM method (multi-period excess earnings method) based on the present value of future profits generated by the respective relations. Fair value is determined based on discounted future cash flows arising from the additional revenue generated by the company owning a given intangible asset as compared to the revenue generated by the company if it did not hold such an asset. The relations are identified along with the projected period of their duration (using an appropriate churn rate and applying the so-called Weibull's curve); revenue and costs related to individual relations are projected. The identified and calculated CAC (contributory asset charge), including retaining capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. Should there be any tax structures in place allowing an average market participant for tax depreciation of the relations, the TAB should be included in its measurement;
- present value of future profits (VIF, value in force) – as a potential excess of book value of technical provisions over their fair value, including deferred acquisition costs. Fair value of technical provisions is determined as the expected value of nominal cash flows projected using actuarial methods appropriate for particular provision types, including the specific nature of a given portfolio and market trends. The expected value of future cash flows is determined by discounting projected nominal cash flows using discount rates established on the basis of the risk-free rates curve. When forecasting nominal cash flows, the following factors are considered: the likelihood of occurrence and the value of future claims, claim handling costs (both direct and indirect) and – in the case of unearned premiums reserve – also administrative expenses related to insurance portfolio management. The estimates take into account reinsurer's share resulting from binding reinsurance treaties. The relevant probability of an event occurrence is estimated using statistical and actuarial methods, whereas the cash flow value results from relevant provisions of insurance contracts and actuarial analysis;
- IT systems – gross value of purchased systems was specified as the amount of financial expenditure made to purchase them. For systems developed internally, their gross value is established at the amount of capitalized expenditures made to develop them. Values specified in such a manner are adjusted by the existed horizon of operational use of the system which is determined as a percentage parameter of duration of the system's lifecycle in relation to the projected period of its operational use. Fair value of systems under construction is adjusted to the amount of expenditures made on functions for which the development works have not been completed or which have not been tested, and thus are not ready for production delivery;
- customer relations concerning clients holding CDIs (core deposit intangible) – as a current value of the difference between the borrowing costs of CDIs and alternative borrowing costs (including interest and administrative expenses) which would be incurred by the bank if it did not have a portfolio of such accounts. The value of a CDI is measured with the favorable source of funds method, which derives from the expense and income methods. In this method, forecasts are made for the retention level of CDIs (with the application of so-called Weibull curve), average opening balance and the number of accounts which have to be included in the measurement are estimated and net balance of deposits is calculated (adjusted by the retention ratio and unstable part of the deposit base). On the basis of the requirements for the compulsory provision and interest and administration expenses less

commission income from accounts the cost of acquired deposits is calculated. Next, on the basis of interest rate benchmarks, the alternative borrowing cost is estimated. In the next step, the difference between the alternative borrowing costs and the cost of acquired accounts, which is discounted using the acceptable return rate, is calculated. In the measurement of CDI no tax amortization benefit (TAB) was included.

The discount rate applied to measure the intangible assets reflects the time value of money and risks related to expected cash flows in the future. It is calculated based on the expected return from the best alternative investment as compared with the measured investment. The rate indicates the lowest acceptable return from an asset by the investor in such a manner that the return rate achieved by the investor is at least equal to the best available investment alternative. The return from alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the acquisition date in accordance with the CAPM (Capital Asset Pricing Model) model: $CE = RF + ERP \times \beta + SP + SR$, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks related to a given type of activity, SP – low capitalization premium, SR – specific premiums.

Credits and loans granted to clients

Fair value valuation of the loan portfolio was performed with the income method which consists in discounting future cash flows from the valuated part of the loan.

- Performing loans – (individual clients) – current value of cash flows is determined as a sum of contractual installments of principal amounts and interests (in accordance with contractual margin rates and non-payable part of principal amount), adjusted by the credit risk and pre-payments, wherever significant. The following is applied to discount cash flows:
  - average basic reference rate calculated on a basis of daily quotations for appropriate basic rates (WIBOR, LIBOR) for the period of three months preceding the date, plus an effective interest rate margin. Average values weighted with the non-payable principal amount for current sales were applied as reference effective interest rates. Effective interest rates were divided by currency, product group and client scoring; or
  - market interest rates obtained from the yield curve build based on the rates of the financial market, FRA contracts, and IRS rates for all currencies adjusted by liquidity margin used in the system of transfer funds (STF), margin on capital cost measured with application of the aforementioned CAPM model and margin on portfolio credit service costs estimated by business units;

  In order to include in the model the prepayments for credit installments made by the clients, the model of economic life cycles was applied. The prepayment ratio was included only in the case of the loans and mortgage loans, while it was considered irrelevant with respect to other products.
- Performing loans (business clients) – the assumptions used in the measurement of business clients portfolio are the same as in the case of individual clients portfolio, with the exceptions described below:
  - in determining reference effective interest rate the size of the enterprise is taken into account instead of client scoring;
  - prepayment ratio is not taken into account, while it was considered irrelevant.

  For the clients largest in terms of the total value of non-payable equity, an individual analysis of price conditions (taking into consideration a potential rating change) which would be offered to the same clients on the measurement day is performed. On its basis it was concluded that in the case of the business clients, the price conditions of the offered products would not significantly differ from the price conditions determined in the concluded agreements. Besides the individual assessment of the largest clients, an analysis of the effective interest rates for the whole business clients portfolio was performed. The analysis showed that the margins applied to the portfolio are stable and that the average margins of the whole portfolio do not differ from the margins achieved on the current sale.

- Credits with no determined payment schedules – it was assumed that the fair value is equal to their carrying amount. It resulted from the assumption of possible immediate repayment of such liabilities (overdrafts, credit cards of corporate clients, commercial open-end credit, factoring);
- Non-performing loans – fair value was established on the basis of expected recoverable flows of capital and interests, determined by application of the following parameters: PD – default probability of a client from the flow date, and LGD – loss in the case of default upon the flow. Calculated recoverable cash flows were discounted similarly to performing loans.

Property, plant and equipment

Property is measured using the income method, whereas other tangible assets – using market or cost method.

Technical provisions

The value of technical provisions is recognized in the carrying amount. The difference between fair value and the carrying amount of technical provisions is disclosed as intangible assets (future profits from concluded insurance contracts).

Liabilities arising from unfavorable (generating charges) lease agreements

In order to determine the fair value of the liabilities arising from unfavorable (generating charges) property lease agreements, an analysis of standard market lease rates in individual locations, as at the time of determining the fair value, was performed. Next, the rates were compared with the amounts arising from the concluded lease agreements. Due to the high number of agreements, the analysis was conducted on an agreement sample for agreements concluded in different years. Then, the differences found in the analyzed sample were extrapolated to the whole portfolio of agreements concluded in a given year. While determining the fair value, no lease agreements renegotiations or terminations performed before the date set in the agreement were assumed (especially in the cases of the agreements in which the conventional rental rate differed from the estimated market rate). Based on the lease area, localization of the property, lease period and difference between market rate and actually paid rate, cash flows, including their moment of occurrence in the projected period, were determined. The cash flows determined in such a way were discounted as at the date of the valuation at risk-free rate. The value of the discounted cash flows is the fair value of the liabilities as at the moment of the valuation.

5.5 Goodwill

Goodwill, with the initial value determined using a manner described in point 4, is not subject to amortization; instead, it is subject to the impairment test at the end of each financial year and each and every time when impairment indications occur. Goodwill is tested for impairment based on the assessment of the recoverable amount of each cash-generating units (CGU) to which the goodwill was allocated and comparing it with their carrying amount (including the allocated goodwill). Should the recoverable amount be lower, the impairment loss is first allocated to goodwill of the company that generates cash flows. The tested CGU cannot be larger than operating segment.

Goodwill related to subsidiaries is recognized under "Goodwill", whereas goodwill related to associates – under "Entities measured using the equity method" in the consolidated statement of financial standing.

(in PLN million)

5.6 Intangible assets

Intangible assets are recognized when they are identifiable, controlled, and it is possible that the future economic benefits that are attributable to the assets will flow to the entity and it is possible to reliably measure the cost of the asset, with expected useful life longer than one year.

Intangible assets are measured at purchase costs or production costs less accumulated amortization as well as impairment losses.

The method applied to determine the fair value of intangible assets acquired in a business combination is presented in point 5.4.

Intangible assets include in particular: software, copyright, licenses, concessions, as well as assets acquired as a result of business combination transactions: trademarks, customer relations (including clients holding CDIs), broker relations, future profits from concluded insurance contracts, etc.

Intangible assets are subject to amortization over their estimated useful life:

- intangible assets other than intangible assets acquired in a business combination - using the straight line method over the period of two to five years. If appropriate, following a case-by-case analysis, the entity may apply another amortization rate suitable for the estimated useful life of the intangible asset. As the main product system is planned to be used by PZU for ten years, the adopted annual amortization rate amounts to 10%;
- intangible assets acquired in a business combination (except for acquired trademarks) – over the period from one to fifteen years, on the basis of the profits generated in particular years;
- trademarks acquired in a business combination are intangible assets with an indefinite useful life and are not subject to amortization; instead, they are subject to the impairment test at the end of each financial year and each and every time when impairment indications occur.

Amortization is charged under "Other operating costs" in the consolidated statement of profit or loss.

5.7 Property, plant and equipment

Property, plant and equipment are recognized at the purchase price or production costs less any accumulated depreciation and impairment losses.

All tangible fixed assets as well as their important components are depreciated, excluding land and tangible fixed assets under construction. An asset is subject to depreciation as long as it is available for use, i.e. from the moment it is adapted to a given location and conditions required so that it can be used in the manner intended.

Annual depreciation rates for material assets are presented below:

Asset type	Rate
Ownership right of cooperative residential or commercial space	2.5%
Buildings and structures	1.5% - 10%
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT equipment	20% - 40%
Other non-current assets	7% - 20%

Assets held under finance leases are depreciated over the period of their useful life when reasonable assurance is provided as to their purchase or ownership transfer. Otherwise they are depreciated over the period not longer than the period of the lease.

5.8 Impairment of tangible fixed assets and intangible assets

At the end of each financial year, assets are reviewed in order to determine if there are any impairment indicators.

It is considered that intangible assets and tangible fixed assets are impaired if as a result of technological changes, plans of liquidation, abandonment or other premises indicating decrease in usefulness of a given asset, the value of expected economic benefits related to intangible assets or tangible fixed assets has fallen.

When such indicators are identified, an impairment test for a given asset is carried out to determine its recoverable amount. A test for impairment of future profits from the acquired portfolio of insurance contracts is carried out together with a test for adequacy of provisions, as described in point 5.17.3. If necessary, an impairment loss is recognized to the recoverable amount. If an asset does not generate cash flows which, to a large extent, are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to. Impairment losses are recognized in the consolidated statement of profit or loss under "Other operating expenses".

If there are premises indicating that the impairment losses recognized in previous periods are no longer required and the loss should be decreased, the recoverable value of such an asset is calculated. An impairment loss recognized in the previous periods is reversed to the recoverable value not exceeding the carrying amount that would have been determined (having deducted the depreciation), had the impairment loss not been recognized previously. A reversal of impairment loss is disclosed as income in the consolidated statement of profit or loss under "Other operating income".

5.9 Costs of acquisition and deferred acquisition costs

Acquisition costs include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies and research regarding the accepted risk. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuing policies.

Under the accrual basis of accounting, some acquisition costs are deferred over time, in accordance with the rules laid down in points 5.9.1 and 5.9.2.

Deferred acquisition costs capitalized in the statement of financial standing, related both to non-life insurance as well as life insurance, are tested for impairment by the means of Liability Adequacy Tests.

5.9.1. Non-life insurance

Acquisition costs in the case of non-life insurance products are deferred in line with the principles applicable to the unearned premiums reserve and depreciated in the statement of profit or loss (under "Acquisition costs") over the period of the insurance coverage.

Deferral in time applies to acquisition commissions and some of indirect acquisition costs related to conclusion and extension of insurance policies (especially the costs of operations directly related to sales processes which cannot be qualified as direct acquisition costs) and, primarily, the costs of operations related to: concluding contracts and underwriting processes in sales units (specified on the basis of work time surveys), automatic and manual input of policies into production systems (sales recording) and functioning of the contact center in the scope of selling the policies.

5.9.2. Life insurance

In the case of life insurance products, for traditional individual insurance contracts with discretionary participation features acquisition costs are recognized over time based on the Zillmer method (life insurance, endowment and birth insurance).

5.10 Investment property

Investment property is maintained with the purpose of profits from rent or from an increase of the property's value, or with the purpose of benefiting from both simultaneously. Investment properties are not used for operations.

Investment properties are initially disclosed at the purchase price or production costs, increased by transaction costs. Subsequently, they are measured at fair value, in accordance with rules described in point 10.1.5. Profits and losses resulting from changes in the fair value of investment property are recognized in the statement of profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

If property used for internal purposes becomes investment property measured at fair value, depreciation is calculated until the reclassification date, and possible impairment losses are recognized, and next:

- if the carrying amount calculated as at the given date exceeds fair value, the difference is disclosed in the consolidated statement of profit or loss under "Other operating expenses",
- if the carrying amount to date is lower than fair value, the difference is firstly recognized in the consolidated statement of profit or loss under "Other operating expenses" as a reversal of an impairment loss (to the level of the impairment loss recognized previously, but the amount recognized in the consolidated statement of profit or loss must not exceed the amount that would bring the value of property to the value that would remain after depreciation if no impairment loss was recognized), and the remaining part of the difference – in other comprehensive income under "Property reclassified from tangible fixed assets to investment property".

On subsequent disposal of the investment property the revaluation reserve is moved to supplementary capital.

5.11 Associates and joint ventures

Associates are entities over which the parent entity has significant influence, i.e. in which it holds enough power to be entitled to participate in the financial and operating policy decisions of the investee, but is not in control or joint control of these policies.

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

Associates and joint ventures are measured using the equity method, i.e. initially the investment is recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the associate or joint venture. The share of PZU Group in the financial profit of associates and joint ventures is recognized in the consolidated statement of profit or loss under "Share in net profit (loss) of entities measured using the equity method", and the share in changes of comprehensive income items – in the statement of other comprehensive income.

At the end of each financial year and every time any impairment indicators are identified, associates and joint ventures are tested for impairment. The test is based on the assessment of the recoverable amount of the whole entity and by comparing it with the carrying amounts (including goodwill). Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

5.12 Financial instruments

Recognition and classification

Financial assets and liabilities are recognized in the statement of the financial standing when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded on an organized market, the purchase or sale of financial assets and liabilities is recognized as at the trade date.

Financial instruments are classified at the moment of acquisition according to one of four categories: held to maturity, available for sale, measured at fair value through financial result, or loans. At acquisition, financial instruments are recognized at fair value adjusted by transaction costs directly attributable to the purchase or sale of a given financial instrument. Instruments measured at fair value through profit or loss for which transaction costs reduce the item "Net investment income" as a one-off event are an exception. The fair value of a financial instrument upon initial recognition is usually its transaction price, unless the nature of the financial instrument provides otherwise.

Financial assets and liabilities are classified and measured according to the principles described in points 5.12.1 - 5.12.5.

In the case of financial instruments generating interest income, the interest is calculated starting from the first day after the date of transaction settlement.

Derecognition from the consolidated statement of financial standing

Financial assets are derecognized from the consolidated statement of financial position if they expire or if the contractual entitlement to cash flows from the given asset is transferred to another entity. The transfer takes place also when contractual entitlement to cash flows from an asset is blocked, but the contractual obligation to transfer these cash flows to a third party is accepted.

When financial assets are transferred, it is estimated to what extent the risk and benefits related to the ownership of an asset remain:

- if the whole risk and benefits related to the ownership of a financial asset are transferred, the financial asset is derecognized from the consolidated statement of financial standing;
- if practically the whole risk and benefits related to the ownership of a financial asset is kept, the financial asset continues to be recognized in the consolidated statement of financial standing;
- if practically the whole risk and benefits related to the ownership of a financial asset are neither transferred nor kept, the financial asset continues to be recognized in the consolidated statement of financial standing.

If the control is kept, the financial asset is recognized in the consolidated statement of financial standing to the amount resulting from the continuous involvement, accordingly, if there is no control, the asset is derecognized from the consolidated statement of financial standing.

A financial liability (or its part) is derecognized from the consolidated statement of financial standing, if the obligation laid down in the contract was fulfilled, remitted or expired.

5.12.1. Financial assets held to maturity

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

Financial instruments held to maturity are measured at amortized cost and gains or losses on the measurement are recognized under "Net investment income".

5.12.2. Financial assets available for sale

Financial assets available for sale include financial instruments which have not been classified to any other category.

Instruments classified to this category are measured at fair value in accordance with the rules described in point 10.1. The difference between fair value as at the balance sheet date and cost is charged directly to the revaluation reserve. In the case of debt instruments, interest accrued using the effective interest rate is recognized under "Net investment income". The difference between the fair value and the amortized cost is recognized in the revaluation reserve.

In the case of sale of financial instruments available for sale, the value of accumulated revaluation reserve is derecognized and recognized under "Net profit or loss on realization and impairment loss on financial assets".

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

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

- financial instruments held for trading – assets acquired to be sold in a short term or liabilities incurred to be repurchased in a short term, and derivatives, which are not recognized as effective hedging derivatives;
- financial instruments designated upon initial recognition as at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
  - some instruments to cover technical provisions and investment contracts liabilities in life insurance. Adopted classification of those instruments eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities covered by those assets;
  - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles;
  - liabilities arising from unit-linked investment contracts;
  - liabilities to participants of consolidated investment funds.

Fair value measurement principles are described in point 10.1. The effects of a change in the measurement of financial instruments measured at fair value, including income from interest and a change in the value of liabilities due to unit-linked investment contracts, are recognized under "Net change in the fair value of assets and liabilities measured at fair value" in the period to which they relate.

Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value according to the rules described in point 10.1.3.

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

Changes in the fair value of derivatives which are not hedging instruments are recognized under "Net change in the fair value of assets and liabilities measured at fair value"

5.12.4. Loans, borrowings and other receivables

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

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

Loans, borrowings, and other receivables include in particular:

- debt securities acquired as part of a contract under which the seller has kept practically all risks and benefits related thereto (buy-sell-back and reverse-repo transactions);
- debt securities not quoted on an active market;
- deposits in credit institutions;
- granted loans;
- loan receivables from clients;
- receivables from concluded insurance contracts (including reinsurance);
- other receivables.

Loans, borrowings, and other receivables, excluding receivables from concluded insurance contracts and other short-term receivables, are measured as at the balance sheet date at amortized cost.

Due to their nature, receivables from concluded insurance contracts and other short-term receivables are measured at the nominal value less any impairment losses (the manner of estimating the impairment losses for insurance receivables is described in point 6.2.2.4).

The effects of measurement of loans, borrowings, and other receivables at amortized cost are recognized under "Net investment income".

5.12.5. Financial liabilities other than ones measured at fair value

Financial liabilities measured at amortized cost, with gains or losses on the measurement recognized under "Interest expense", include:

- liabilities to banks and clients due to current and term deposits;
- debt instruments issued by PZU Group;
- investment contracts with guaranteed and fixed terms and conditions;

- security sales transactions with an obligation to buy them back on a predefined day at a predefined price (sell-buy-back and repo transactions).

Trade liabilities are short-term in nature and, thus, are measured at the amount due.

5.12.6. Hedge accounting

Hedge accounting is used for symmetric recognition of offsetting changes in fair value of hedging instruments and hedged items in the statement of profit or loss. Hedge accounting is applied, when the following conditions are met:

- at the inception of the hedge, the hedging relationship is formally designated and documented, including the entity's risk management objective and strategy for undertaking the hedge. The documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the entity assessed the hedging instrument's effectiveness;
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy regarding the specific hedging relationship;
- the forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variability in cash flows that could affect profit or loss;
- the effectiveness of the hedge can be reliably measured, which means it is possible to reliably estimate cash flows relating to the hedged item and the hedging instrument;
- the hedge is being constantly evaluated in terms of its effectiveness throughout the financial reporting periods, for which the hedge was established.

Some PZU Group entities do not apply hedge accounting of cash flows.

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

The hedging strategy is aimed at hedging the interest rate risk arising from the variability of cash flows from assets with variable interest rates, using IRS transactions in PLN. The hedged items are cash flows from loans and borrowings (in PLN) portfolio of variable interest rate. The hedging instruments are IRS transactions providing fixed interest based on a fixed rate, and the interest is paid on the basis of a variable rate. Hedged items are measured at amortized cost, and hedging instruments are measured at fair value.

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

5.12.7. Impairment of financial assets

As at the end of each financial year, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is assessed.

If any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows occurs, appropriate impairment losses are created and charged to the current period expenses. Expected impairment losses resulting from future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the borrower by the creditor (for economic or legal reasons resulting from financial difficulties of the borrower), which otherwise would not have been given (forbearance);
- high probability of liquidation, bankruptcy or other financial reorganization of the borrower;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;

- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
- negative changes concerning the status of the borrowers' payments in the group (e.g. an increase in the amount of outstanding payments); or
- unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtors' solvency;
  - significant or prolonged decrease in the fair value of investment in an equity instrument below the acquisition cost (additional information is presented in 6.2.2.3);
  - unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

Premises indicating an impairment loss concerning credit exposures may be divided into groups of premises related to:

- client, including:
  - individual client – personal bankruptcy, death, lack of information on the client's place of residence, job loss, client's financial problems;
  - business client – rectification proceedings, bankruptcy/liquidation, material downgrading of the internal scoring/rating, significant deterioration of economic and financial condition;
  - both individual and business client – significant delay in payment or unauthorized overdraft, undisclosed client's assets.
- account – issue of a bank enforcement order, instigation of enforcement proceedings, successful termination of a contract, restructuring, exposure questioned by the debtor in court, identified act of fraud.

If there is no objective evidence of impairment of the individually assessed financial asset, whether the asset is relevant or not, the asset is included in a group of financial assets with similar characteristics of credit risk and they are jointly assessed for impairment. The assets assessed individually for impairment loss for which an impairment loss was recognized are not included in the joint assessment for impairment.

The amount of the impairment loss is the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses which were not incurred) which are discounted using the original effective interest rate of the financial instrument (i.e. effective interest rate determined upon initial recognition). Interest income is recognized with the application of the interest rate used for discounting future cash flows for the assessment of an impairment loss. The exposures for which an impairment was evidenced are classified as individually assessed and assessed in a group (collectively).

In the case of premises indicating impairment of financial instruments available for sale, losses initially recognized in revaluation reserve are charged to the statement of profit or loss.

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

- in the case of equity instruments – they must not be reversed;
- in the case of debt instruments – they may be reversed, provided that in the subsequent periods the fair value of a given debt instrument increases, and the increase may be objectively associated with the event following recognition of the impairment loss in the statement of profit or loss.

The estimates and judgments used for determination of impairment losses are presented in 6.2.2.

5.13 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and current bank accounts, including the NBP account.

Cash is recognized at face value.

5.14 Assets and liabilities held for sale and disposal groups

Assets and liabilities or disposal groups are classified as intended for sale, if there is a plan for selling them and a buyer is being actively sought.

Assets and liabilities held for sale and disposal groups are measured at the lower of the two figures: previous carrying amount and fair value less costs to sell.

5.15 Leasing

Leases are classified depending on the extent to which the risks and benefits of ownership of the leased asset are attributable to the lessor and to the lessee. PZU Group companies are parties to leases, both as lessors and lessees. These agreements concern mainly property and therefore are classified as operating leases.

Lease payments for operating leases are recognized in the statement of profit or loss with the application of the straight line method throughout the leasing period.

5.16 Equity

5.16.1. Share capital

Share capital is recognized in the amount specified in the parent entity's bylaws and registered in the National Court Register.

5.16.2. Treasury shares

Acquired treasury shares and the ones held by the consolidated entities within PZU Group are recognized at the acquisition price.

5.16.3. Supplementary capital

Under "Supplementary capital", the following are recognized:

- effect of profit distribution, in accordance with the legal regulations of the country where the company has its registered office (in Poland, in accordance with the provisions of the Code of Commercial Companies) and the bylaws of PZU Group entities.
- capital resulting from sale of investment property which was earlier reclassified from own property, in accordance with the rules described in point 5.10;
- difference between the decrease in value of non-controlling interest and fair value of payment made in the transaction of purchase of the non-controlling interest in subsidiaries.

5.16.4. Revaluation reserve

The item "Revaluation reserve" includes the effects of:

- revaluation of financial assets classified as available for sale;
- remeasurement of the value of property to their fair value as at the date of their reclassification from property used for internal purposes to investment property;
- valuation of security instruments, in the share that constitutes effective protection;

including the corresponding change in the deferred tax assets and liabilities.

5.16.5. Actuarial gains and losses concerning provisions for employee benefits

This item includes actuarial profits and losses resulting from an increase or a decrease in the present value of defined benefit liabilities due to changes in actuarial assumptions and ex post adjustments thereto. The item includes profits and losses resulting from changes in demographic assumptions (such as mortality, employee turnover ratio) as well as financial assumptions (such as the discount rate or the projected pay growth rates).

5.16.6. Exchange differences from translation

The item includes foreign exchange differences from translation of foreign operations financial data using the exchange rates and in accordance with the principles described in point 5.3.

5.16.7. Unappropriated result

The item "Unappropriated result" includes:

- previous year net profit which has not been distributed by the General Meeting/Shareholders' Meeting;
- current year net profit/loss;
- uncovered net loss.

Net profit distribution (or loss coverage) of the parent entity and PZU Group entities takes place only with respect to the net profit (loss) recognized in the company's separate financial statements prepared according to the local accounting standards effective in the country of residence of a given company.

5.16.8. Non-controlling interest

Non-controlling interest represents the part of a subsidiary's equity which may not be attributed to the parent entity, whether directly or indirectly. Non-controlling interest is measured as the proportional share in the fair value of identifiable net assets of a subsidiary.

5.17 Insurance contracts

5.17.1. Written premium, unearned premium reserve, and unexpired risk reserve

5.17.1.1. Non-life insurance

Written premiums from insurance contracts and reinsurance treaties are recognized at the date of the insurance contract conclusion.

Written premiums are recognized in proportion to the period of insurance coverage. Part of the written premium for the period of insurance coverage after the balance sheet date is recognized under unearned premiums reserve. The unearned premiums reserve is determined individually as at the end of each financial year, accurate to one day.

The unexpired risks reserve complements the unearned premiums reserve and covers future claims, benefits and costs, including deferred acquisition costs, relating to insurance contracts which do not expire on the last day of the financial year. The unexpired risks reserve is determined for individual insurance groups as at the end of each financial year.

The overall unexpired risks reserve is determined for insurance groups with the claims ratio for the current year exceeding 100%, as the difference between the product of the unearned premiums reserve and the claims ratio for the current financial year and the unearned premiums reserve – for the same coverage period.

5.17.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the financial year, irrespective of the fact whether the amounts have been paid or not, as well as whether the amounts refer to the whole reporting period or its part. The premiums are adjusted by the change in the unearned premiums reserve during the financial year and reduced by the amount of premium due to the reinsurers. Unearned premiums reserve is created as a portion of written premiums that refers to future financial years proportionally to the period to which the premium is written.

5.17.2. Claims and benefits paid and technical provisions

5.17.2.1. Non-life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling expenses and costs of collection of subrogations and a change in outstanding claims provisions. The costs of claims and benefits are reduced by all received salvages and subrogations as well as by the change in expected salvages and subrogations.

Outstanding claims and benefits provision

The outstanding claims and benefits provision includes:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the financial year;
- provision for losses and accidents which were incurred by the end of the financial year and were not reported;
- provision for claims handling expenses.

The provision for claims reported but not paid (RBNP) is determined based on an individual approach by claims handling units or, if obtained information does not allow to determine the provision amount, as the amount of average claim determined with an actuarial method. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impacts its amount by individual assessment or estimated losses and claims.

The provision for claims incurred but not reported (IBNR) is created for claims and benefits which have not been reported by the end of the financial year when the provision is recognized. IBNR is calculated using the loss triangles: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the years during which losses were incurred. Basis for calculation are annual triangles for claims paid and claims reported.

The provision for direct claims handling costs for claims reported is calculated on a case-by-case basis for each claim, whereas for claims incurred but not reported it is calculated using the generalized Chain Ladder method (based on cost triangles broken down by the years in which claims were incurred).

The provision for indirect claims handling expenses is recognized using the actuarial method as the product of the share of indirect claims handling expenses in claims paid to direct claims handling expenses ratio, and the provision for claims reported but not paid, the provision for claims incurred but not reported and the provision for direct claims handling expenses.

Provisions I and II and the provision for claims handling expenses are recognized at the nominal value, i.e. they are not discounted.

Provisions for the capitalized value of annuities

Provision for the capitalized value of annuities is calculated individually, as the present value of annuity (for life or periodic), paid in advance.

As at the end of each financial year, using actuarial methods a provision for capitalized value of annuities is created for claims incurred after 31 December 1990 by the balance sheet date and not disclosed as annuity (annuity IBNR). As at the end of each financial year, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of the financial year is lower than the predetermined percentage of the current value of average salary between 1960 and 1990.

5.17.2.2. Life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling expenses and a change in outstanding claims provisions.

Costs of benefits paid

Benefits paid include all payments and charges made in the financial year due to benefits incurred during the financial year and earlier (also annuity claims and surrenders), together with all direct and indirect, internal and external benefits handling costs. Handling costs include also the costs of litigation.

The value of benefits is recognized at the actually paid amount, following deduction of refunds (except for refunds due to outward reinsurance), increased by the change in outstanding claims provision and reduced by the reinsurers' share in claims paid and provisions.

Life insurance provision

Life insurance provision is determined using the prospective actuarial methods, on the case-by-case basis and in the amount corresponding to the difference between:

- expected present value of guaranteed benefits which may result in relation to insurance protection granted;
- the current value of expected premiums which will be paid by the termination of the contracts.

With respect to insurance concerning equity funds, life insurance provision is created to cover present benefits related to the provided insurance coverage over the cash accumulated in the fund and it corresponds to the portion of payment imposed due to the provided insurance coverage attributable to the future financial years.

Calculation of life insurance provision includes also overheads, whereas the sole provision is not reduced by the value of deferred acquisition costs.

Unit-linked life insurance provision

Unit-linked life insurance provision is created at the value of the investment made in line with the provisions of the concluded contract.

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Outstanding claims and benefits provision

Outstanding claims and benefit provision is created independently for:

- claims reported but not paid – using the case-by-case method or when the amount of claim cannot be assessed, if the claims and benefits are large-scale, using the average claim from the quarter immediately preceding the financial year;
- claims incurred but not reported – using the lump-sum method, as the percentage of claims paid for the period of the last twelve months.

Outstanding claims and benefits provision includes also a claims handling provision.

Provisions for bonuses and rebates for the insured

The provision corresponds to the portion of profit from insurance granted following the end of the settlement period which will be granted and paid to the insured after the end of the financial year (so-called share in profit) on the terms and conditions as specified in contracts.

Other technical provisions

Other technical provisions in life insurance include:

- provision for revaluation of claims under individual life insurance and annuity assumed from Państwowy Zakład Ubezpieczeń;
- provision for pending court proceedings and claims related to court decisions (based on Article 358 §3 of the Civil Code of 23 April 1964 (Journal of Laws of 1964, item 121, as amended) concerning the change in the amount and the manner of paying a cash performance; the value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts;
- provision for low interest rates – related to the projected decline in profitability of assets to cover the provisions concerning life insurance for traditional individual life insurance, birth insurance, and annuities. The provision is created according to the actuarial method, on the case-by-case basis, in the amount corresponding to the difference between:
  - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates, including their projected future decrease and
  - amount of mathematical provisions calculated in line with the valid regulations for creating provisions with the original technical rate applied for other product pricing.

5.17.3. Liability Adequacy Tests

Non-life insurance

In non-life insurance, the test for adequacy of provisions is not required, however, when preparing the consolidated financial statements, a procedure analogous to the test for adequacy in life insurance is carried out in order to verify the adequacy of provisions for claims for individual products. Currently observed trends in accidents, rate of damage reporting and compensation payment are considered while carrying out the assessment. If the estimates including current trends exceed provisions for claims, the provisions are increased to the level of these estimates. Otherwise, the provisions can be partially released.

The mechanism of the creation of unexpired risks reserve in non-life insurance described in point 5.17.1.1 in line with the minimum requirements of Liability Adequacy Test.

Life insurance

As at the end of each year, the technical provisions recognized in the consolidated financial statements are compared with the present value of expected future cash flows, i.e. the economic value of liabilities, for individual products from the life insurance portfolio. The forecasts for the cash flows include income from premiums, expenses due to claims, costs and commissions, and are determined based on a number of assumptions concerning: mortality, claims, resignations, servicing costs, curves of return rates and other assumptions specific for the product (e.g. indexation).

The assumptions on expected future rate of mortality, claims, resignations and other assumptions specific for the product used for cash flow forecasts are verified every year and updated based on current experience and observed trends. Along with the assessment of their further establishment, they constitute the best estimate assumption in the scope of the further development of mortality, claims, resignations, etc.

Future indexations of the sum insured and premiums resulting from the right to a share in the profit described as the surplus of return rates from investments achieved above the technical rate are based on a forecast concerning future return rates from the current assets covering technical provisions portfolio for these products, along with their reinvestments with present term structure of interest rates, i.e. in line with current market expectations, forecasted in the future.

The forecasts of the future costs are made on a basis of the expected number of contracts that stay in the portfolio in subsequent periods and average unit cost of service per contract. The assumptions concerning unit costs are made based on expected future portfolio maintenance and service costs including asset management and claims handling expenses. It is assumed that unit service costs are subject to the increase in projection in subsequent years by the cost increase rate. The amount of future commissions is set based on agreed commission rates for every contract in the years subsequent to their conclusion.

In order to determine the present value of future cash flows, discount factors are used based on unadjusted profitability of Polish treasury bonds in line with their current market prices.

The test involves a comparison of the present value of projected discounted cash flows with the amount of provision recognized at the end of each year. In the case when the provisions are found to be insufficient as compared to the value of discounted cash flows, the assumptions concerning provision creation are adjusted, thus making the adjustment to the value of the provisions.

The objective of the Liability Adequacy Test is the assessment of sufficiency of value of the technical provisions recognized in the consolidated financial statements, and not the assessment of sufficiency of each assumption. Hence, the Liability Adequacy Test does not lead to direct identification of sufficiency level or inadequacy of each assumption used for the estimation of technical provisions.

5.17.4. Reinsurer's share

The reinsurer’s share in premiums, unearned premiums reserve, unexpired risks reserve, and outstanding claims provisions is determined in accordance with the terms and conditions of relevant reinsurance treaties.

The reinsurers’ share in claims and benefits is determined for the groups of insurance with reinsurance, in the amount of reinsurers’ share in claims and benefits, in line with relevant reinsurance treaties.

5.18 Provisions for employee benefits

5.18.1. Defined premiums plans

Costs of premiums which constitute statutory employee overheads and are borne by an employer are charged to the statement of profit or loss for a relevant period. In Poland, they include some of the contribution to pension and disability insurance and all contribution to accident insurance, Fundusz Pracy [Labor Fund] and Fundusz Gwarantowanych Świadczeń Pracowniczych [Guaranteed Employment Benefit Fund], as well as contribution to Zakładowy Fundusz Świadczeń Socjalnych [Social Benefits Fund].

5.18.2. Defined benefits plans

Pursuant to the Labor Code of 26 June 1974 (Journal of Laws of 2014, item 1502, as amended), the employees of PZU Group entities with registered offices in Poland are entitled to a retirement or disability benefit (in the amount of a monthly salary at the time when they retire) and death benefits (depending on the employee's duration of employment in PZU Group entities, in the amount being an equivalent of 1 to 6-month salary).

The costs of certain benefits plans estimated using the actuarial methods are recognized on an accrual basis, using the projected unit credit method.

Actuarial profits and losses are recognized in total in the period in which they were disclosed under "Actuarial gains and losses from remeasurements of defined benefit liabilities" under other comprehensive income. Additional information is presented in point 5.16.5.

5.18.3. Costs of paid annual leave

The employees are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labor law (in Poland - the Labor Code). The cost of employee paid vacation is recognized on an accrual basis, using the liability method. The liability due to employee paid vacation is determined based on the difference between the actual use of the vacation by employees and the balance which would take place if the paid vacation was used in proportion to the lapse of time in the period for which the vacation is due.

5.19 Other provisions

Provisions are liabilities of uncertain timing or amount. A provision is created based on a present obligation that has arisen from past events, which – when fulfilled – will cause an outflow of economic benefits. The amount of the provision is measured based on the best estimate of this outflow as at the balance sheet date.

A provision for restructuring costs is created only when the general criteria of recognizing provisions have been met, together with additional specific criteria related to provisions for restructuring costs, such as a formal, detailed plan of restructuring and arousing justified expectations of parties affected by the plan that the restructuring action should take place (for instance, by starting to implement the plan or announcing its key elements).

5.20 Revenue recognition

Recognition of revenue due to insurance contracts is described in point 5.17.1.

Commissions from bank activity

Revenue from commissions and fees is generally recognized at the time of the service. Commissions and fees directly related to establishment of financial assets or liabilities (both revenues and costs), which do not constitute an integral part of effective interest rate, are settled on a straight-line basis and presented respectively under "Revenue from commissions and fees" or "Costs of commissions and fees". Other commissions and fees (that do not form an integral part of the effective interest rate and are not calculated on straight-line basis) related to financial services (e.g. cash management services, brokerage services, investment advice, financial planning, investment banking services and asset management services) are recognized in the statement of profit or loss when the service is provided.

Interest

Income from interest is recognized on the accrual basis, based on the effective interest rates and it is recognized in the statement of profit or loss under "Net investment income".

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired and they are recognized under "Net investment income".

Income from pension fund management services

Income from the management of OFE PZU is recognized on the accrual basis and disclosed under "Revenue from commissions and fees". The income includes in particular:

- fees on premiums transferred by ZUS to OFE PZU in the amount specified in the Bylaws of OFE PZU and in line with the limits as stipulated in the Pension Funds Act;
- OFE PZU assets management fees as specified in the Bylaws of OFE PZU, in accordance with the limits as stipulated in the Pension Funds Act;
- other fees determined in the Bylaws of OFE PZU.

Revenue and payments received from funds and investment fund management companies

Revenue and payments received from funds and investment fund management companies are recognized on an accrual basis based on the value of assets invested in different investment funds and presented under "Revenue from commissions and fees".

5.21 Taxes

Income tax recognized in the statement of profit or loss includes the current and the deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in the country where the company has its registered office.

The deferred portion recognized in statement of profit or loss is the difference between the balance of deferred tax liabilities and assets as at the beginning and end of the financial year; deferred tax liabilities and assets for transactions charged to equity are charged to equity.

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which – as expected – will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group entities, issued by the end of the financial year.

5.22 Earnings per share

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

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during this period and multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

6. Key estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires from the Management Board of PZU to make professional judgments, estimates and assumptions which have an effect on the adopted accounting principles and the presented value of assets, liabilities, revenue and expenses.

Estimates and assumptions related to them are based on historical data and other factors considered to be rational in given circumstances, whereas their results provide a basis for a professional judgment of the carrying amount of assets and liabilities which does not result directly from other sources.

With respect to important issues, the Management Board of PZU can base on the opinion of independent experts when making judgments, estimates or assumptions.

The actual value may differ from the estimated value. Judgments, estimates and assumptions related to them undergo constant verification. Any changes thereto should be presented as described in point 5.11.

6.1 Judgments made

6.1.1. Consolidation principles

6.1.1.1. Judgments in exercising control

PZU Group assumes that it is in control only when it simultaneously has power over the entity, is subject to the exposure, or retains the rights, to variable financial results, and has the ability to use its power to affect the amount of financial results.

In order to determine whether PZU Group holds the rights which are sufficient to exercise power, i.e. practical possibility to single-handedly manage significant activities, PZU Group analyses i.a.:

- how many votes it holds and whether it holds more votes than other investors (including potential voting rights and rights resulting from other contractual arrangements);
- how many entities would have to act together in order to outvote PZU Group;
- distribution of votes at previous general meetings;
- obligations, if any, to ensure undisturbed operations of the entity in which the investment was made;
- if the key personnel of the entity or members of the management body of the entity where the investment was made have ties to PZU Group;
- capacity to appoint members of management and supervisory bodies of the entity;

- possibility to oblige or prevent the entity to perform significant transactions;
- other prerequisites.

With respect to Alior Bank, PZU Group performed analysis of the above prerequisites and determined that:

- as at 31 December 2016, it holds a total of 29.4488% of Alior Bank shares that entitles it to the same number of votes at the General Shareholders' Meeting of Alior Bank;
- only three shareholders hold share packages of over 5%, whereas the rest of shareholding is fragmented and a large number of entities would have to act together to outvote PZU at the general meeting;
- the held share package would entitle to a majority of votes at the majority of general meetings (as a result of an analysis of attendance and schedule of votes at the general meetings of Alior Bank in the years 2013-2016);
- upon PZU Group's request, member of the Alior Bank management board, who previously served as member of the PZU Management Board, and three members of the Alior Bank supervisory board who are key managers at PZU were appointed;
- PZU Group does not have knowledge of potential agreements concluded between other shareholders of Alior Bank;
- PZU Group undertook investment obligations towards Alior Bank, due to which it is vulnerable to the variability of Alior Bank's financial results to a larger extent than it would result from its percentage share in Alior Bank's capital.

In the light of the above prerequisites, it was stated that, as at both 31 December 2016 and 31 December 2015, PZU Group exercises control over Alior Bank, along with its subsidiaries, and included it in consolidation.

6.1.1.2. Principles of consolidation of investment funds

PZU Group has assumed that it controls the investment fund if both conditions mentioned below are met:

- PZU Group entities together have the ability to use their power over the fund in order to influence the value of the return on investment and the rationales for this ability are, among others, the control over the investment fund management company, a significant share in the total number of votes at the general meeting of investors or the board of investors;
- the total exposure of PZU Group entities to variable returns from involvement in the investment fund is significant, which means that the total share of PZU Group entities in the net assets of the fund equals or exceeds 20% (whereas the determination of the so understood total share does not include the fund assets that are attributable to unit-linked products. If the involvement does not exceed 20% in the net assets of the fund, the exposure to variability of the fund's financial results considered together with decision-making powers imply that such a fund is not under control.

PZU Group accepts that the consolidation of the fund will be maintained (or dropped, accordingly) during the period of two subsequent quarters following a quarter which closed with a decrease (or increase, accordingly) of the share in the net assets of the fund below (or above, accordingly) 20% when this decrease (or increase) resulted from amounts paid in (or out) of participants not belonging to PZU Group.

Investment funds controlled by PZU Group are consolidated. Their assets are fully presented in the statement of financial standing as financial assets by type and classified to portfolios, whereas the liability related to the net assets of the fund held by third-party investors – under "Financial liabilities".

6.1.2. Classification of insurance contracts in accordance with IFRS 4

PZU Group entities that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction), i.e. when the contract involves significant insurance risk transfer.

Assessment whether a contract does transfer significant insurance risk requires an analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a subjective judgment which significantly impacts accounting principles applied. Based on the assumptions adopted by PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, concluded contracts are recognized either in accordance with IFRS 4 or IAS 39.

6.1.3. Contract classification in non-life insurance

The analysis carried out proves that all non-life insurance contracts transfer significant insurance risk and therefore are governed by regulations of IFRS 4.

Additionally, in the light of work on IFRS 17 (IFRS 4 Phase II) carried out by IASB, insurance contract accounting is still applied to financial guarantees that meet the definition of a financial instrument.

6.1.4. Classification of life insurance contracts

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

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

Both insurance and investment contracts can include discretionary participation features (DPF). They entitle the insured to receive additional claims or bonuses as an extra to the guaranteed claim. Such a claim constitutes a significant part of the total contractual claim; its amount and period of validity are of contractual nature and they depend on the insurer's discretion, whereas their occurrence depends on:

- a specific set or type of contracts;
- profit or no profit from specific assets;
- profit or loss of the insurer, fund or other entity related to the contract.

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

Additionally, no life insurance contracts have been identified which would provide for the simultaneous transfer of both insurance and financial risk and require unbundling of insurance and investment components. In the case of contracts for which unbundling of embedded options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required according to IFRS 4, the investment component is not unbundled.

6.2 Estimates and assumptions made

6.2.1. Fair value

Assumptions applicable for determining the fair value of assets are presented in point 10.

6.2.2. Impairment

6.2.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount for subsidiaries are presented in point 27.

6.2.2.2. Financial instruments measured at amortized cost

The assessment is made for all balance credit exposures (balance groups of credit exposures) in order to identify objective evidence for impairment. It is made in accordance with the most recent data on the day of value remeasurement. While determining the amount of impairment loss, the assessment of the estimations of amounts and realization dates of future cash flows is made. The estimations are based on assumptions concerning many factors, hence the real results may vary. This may lead to a future change in the amount of an impairment loss.

Individual assessment is valid for impaired exposure exceeding the adopted materiality or exposure thresholds (PLN 150 thousand for individual client and PLN 500 thousand for business client), or exposure for which there is no possibility of separating a group of assets with similar credit risk characteristics or the attempt to assess the parameters of the group is insufficient.

The individual assessment is based on an analysis of possible scenarios (business clients) or an Event Tree for possible events (individual clients). The probability of realization and expected salvages were assigned to each scenario or branch of the Tree. The standard Event Trees which represent different collection strategies were prepared for the individual clients. The assumptions for individual measurements are thoroughly described. The values of the salvages expected in individual measurements are compared to salvages realized quarterly.

The group measurement is based on the time the given exposure spends in the state of impairment; it takes into account the characteristics of a given group in terms of expected salvages. The hedges are recognized on the exposure level.

The credit exposures for which individual evidence of impairment loss was not identified are grouped with respect to the homogeneity principle concerning risk profile and the provision for exposure group for the coverage of losses incurred but not reported is created.

Impairment losses on assets held to maturity and loans and receivables are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the effective interest rate determined upon initial recognition (original effective interest rate).

If in a subsequent period the amount of impairment decreases as a result of an event that occurred after the impairment, the previous impairment loss is reversed by adjusting the balance of impairment losses. The reversal amount is recognized in the statement of profit or loss under “Net result on realization and impairment losses on investments”.

6.2.2.3. Equity instruments quoted on the regulated markets as well as participation units and investment certificates issued by investment funds

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

- negative difference between the present value and cost represents at least 30% of the cost;
- value of an asset as at the end of each of the 12 consecutive months is lower than the cost.

Impairment losses are not recognized if it is concluded that the aforesaid events may be reversed within 6 months from the balance sheet date or there are any other indications that the decreases may be temporary in nature.

6.2.2.4. Receivables from insurers

Receivables from insurers are reviewed in order to determine possible occurrence of impairment indicators.

Firstly, impairment losses for individual assets are assessed. An impairment loss for individual asset is made for a single account receivable after an evaluation of the economic and financial situation of the debtor and the probability that the amount due will be paid. These receivables are not taken into account in group impairment losses.

As far as accounts receivable from debtors that are in liquidation or bankrupt are concerned, the impairment loss is based on the amount of receivables not covered by a guarantee or another security. If the debtor saw their bankruptcy petition dismissed and the debtor's assets are not sufficient to satisfy the costs of bankruptcy proceedings, the total value of the account receivable is written-off.

An impairment loss for individual asset is increased when there are indications suggesting that the estimated amount which can be recovered has decreased or that the amount due, for which the impairment loss for individual asset was created, has grown. An impairment loss for individual asset is reversed if it is estimated that the amount which can be recovered exceeds previous estimates or if it has been confirmed that the receivables will be paid partially or in full. An impairment loss for individual asset is used if the receivables are to be partially or fully remitted or written-off.

Where no case-by-case estimates have been made, the impairment of receivables is assessed on a collective-basis, which provides grounds for a group impairment loss.

Non-life insurance

The group impairment loss is assessed on the basis of the adopted model of a permanent yet individually insignificant impairment assessment. In the model, the impairment loss is determined on the basis of collective assessment of impairment of receivables due from insurers grouped according to similar characteristics of the credit risk.

Mature receivables are subject to age analysis, depending on their overdue period. Mature receivables are reduced by the value of the receivables subject to impairment losses for individual assets. The group impairment loss is assessed according to individual overdue periods and on the basis of the uncollectible ratios of mature receivables that are determined on the basis of a historical analysis.

For non-matured receivables, the value of receivables that will probably become mature is determined on the basis of a historical analysis of the share of overdue receivables. The amount determined in this way is reduced by the value of the receivables subject to impairment losses for individual assets. On the basis of the remaining amount of receivables, an impairment loss in the amount of the uncollectible ratio of mature receivables for the shortest overdue period is determined.

Life insurance

The group impairment loss is assessed for receivables which are not subject to impairment losses for individual assets. Receivables are grouped according to similar credit risk characteristics which indicate the debtor's ability to repay the entire debt. It is also allowed to group receivables according to criteria different than how long they have been overdue, as long as it allows for a more accurate estimate of the value of the group impairment loss. Calculations are carried out separately for each insurance product or groups of insurance products.

The amount of group impairment losses is estimated using the models which are created and updated on the basis of data concerning debt collection in respective groups sharing similar characteristics, based on historical data with respect to uncollectible in particular categories of being overdue.

6.2.3. Assumptions made in estimation of technical provisions for non-life insurance

When calculating a provision for capitalized value of annuities, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

Based on the forecast inflation and the pay growth rates, the technical rate of 3.6% and the growth rate of 3.9% were applied to all annuities, both as at 31 December 2016 and 31 December 2015.

As regards life annuities, the period during which annuity claims are paid is determined based on publicly available statistics, such as, for example, the Polish Life Expectancy Tables (PLET) published by the Central Statistical Office in Poland. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

The final estimated value of claims and benefits paid in the provision development triangles, as well as an analysis of sensitivity of the net result and equity to changes in the assumptions made for determining provisions for the capitalized value of annuities are presented in point 8.5.1.1. Methodologies used to calculate the IBNR provision and the old portfolio provision are described in point 5.17.2.1.

6.2.4. Assumptions made in estimation of technical provisions for life insurance products

Provisions for life insurance equal the value of liabilities arising from the concluded insurance contracts. It is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method. The calculation of provisions includes all claims and premiums provided for in the contracts as contractual liabilities and receivables, irrespective of the fact whether the contract will be maintained by the insurer until the end of the period or terminated. The assumptions for the frequency of events under insurance coverage, i.e. mortality, incidence proportion and accident rate is determined based on publicly available statistics, such as PLET in Poland, or based on own statistics developed on the basis of historical data for individual classes of products found in the portfolio.

The assumptions used in the calculation of life insurance provision are determined separately for individual insurance products at the time of determining premium rates and marketing a given product. Every year, the approved assumptions are verified in terms of adequacy. In the case when any of the originally determined assumptions is found to be insufficient, the adjustments are made; however, in the case of lack of insufficiency, the lock-in-assumptions are applied.

Frequency of events covered by insurance

The calculation of provisions includes data on the guaranteed amount insured and benefits, data concerning age and sex of individual policyholders, as well as the assumptions on the age and sex structure of the coinsured (family members of the insured) in the case of group employee insurance and individually continued and family insurance.

For insurance contracts with discretionary participation features and old portfolio insurance, life insurance provision covers also previously granted share in profit in the form of insurance amounts and premiums adjustments and realignment of granted benefits, including revaluation of annuities done by PZU Życie.

An analysis of sensitivity of the net result as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in point 8.5.1.2.

6.2.5. Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as presented in point 40) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions:

- discount rates, in accordance with the yield curve for zero-coupon Treasury bonds,
- mortality rate at the level specified in PLET,
- anticipated pay growth rates in respective PZU Group entities,
- employee turnover ratio (differing due to, among other things, the employee's age, duration of employment, and sex) and
- disability rate (entitlement to a disability pension) as a relevant percentage of the mortality rate.

6.2.6. Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, taking into account the probability of an outflow of cash, including economic benefits to settle the obligation. Outflow of cash is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

Detailed description and amounts of provisions for disputes are presented in points 41 and 48.

6.2.7. Deferred tax assets and liabilities

PZU Group entities estimated taxable future income taking into account the possibility of realization of negative temporary differences due to a tax loss incurred by these companies. No deferred tax assets concerning unused tax loss were recognized in result of the estimations. Unrecognized deferred tax assets and liabilities are presented in point 42.

7. Segment reporting

7.1 Reporting segments

7.1.1. Key division criterion

Operating segments are components of the entity for which separate financial information is available and which are regularly reviewed by CODM (in practice, it is carried out by the Management Board of PZU) in order to allocate resources to the segment and assess its performance.

The key segmentation pattern of PZU Group is based on the criteria, such as type of activity, product lines, client groups, and regulatory environment. Characteristics of individual segments are presented in the below table.

Segment	Accounting Standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	A wide range of non-life insurance products, third party and motor insurance products customized to meet customers' expectations, and with individual risk assessment, offered to large enterprises by PZU, Link4, TUW PZUW.	Aggregation has been made due to similarities between offered products, similar client groups for which they are offered, distribution channels, and functioning within the same regulatory environment.
Retail customer insurance (non-life insurance);	PAS	A wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to individual clients and entities in the SME sector by PZU, Link4, TUW PZUW.	As above.
Group insurance and individually continued insurance (life insurance);	PAS	Group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;	Lack of aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients whereby an insurance contract covers a given policyholder who is subject to individual risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;	Lack of aggregation
Investments	PAS	The segment comprises: 1. investment activity conducted with PZU Group's own funds defined as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie, increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions in insurance products, i.e. the surplus of income from investment activities over the income allocated to insurance segments according to transfer prices; 2. income earned on other excess cash in PZU Group (including, in particular, consolidated investment funds).	
Banking activity	IFRS	A wide range of bank products offered by Alior Bank and to both individual and corporate clients.	Lack of aggregation
Pension insurance	PAS	Pension insurance, second pillar.	Lack of aggregation.
The Baltic states	IFRS	Life and non-life insurance products offered by Lietuvos Draudimas AB, including its branch in Estonia,	Aggregation has been made due to similar products and services

Segment	Accounting Standards	Segment description	Aggregation criteria
		AAS Balta, and UAB PZU Lietuva Gyvybes Draudimas.	offered by the companies and similar regulatory environment of their activity.
Ukraine	IFRS	Life and non-life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	Aggregation has been made due to similar regulatory environment of activity.
Investment contracts	PAS	Products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products).	Lack of aggregation
Other	PAS/IFRS	Other products and services, not classified to any of the above segments.	

7.1.2. Information concerning geographical areas

PZU Group applies additional geographical segmentation, based on which the following geographical areas have been distinguished:

- Poland;
- The Baltic states;
- Ukraine.

7.2 Settlements among segments

The net investment performance (the difference between realized and unrealized revenue and expenses) disclosed under corporate insurance (non-life insurance), retail customer insurance (non-life insurance), group insurance and individually continued insurance (life insurance) is determined in accordance with the transfer pricing based on the interest rate of the curves of the treasury instruments profitability. In the case of unit-linked products with a guaranteed rate and for structured products, the net profit or loss on investments constituting coverage of the corresponding technical provisions is disclosed.

7.3 Measure of profit of a segment

The key measure of profit of a segment in PZU Group:

- with respect to corporate insurance, retail customer insurance, group and individually continued insurance, and individual insurance segments – a profit or loss on insurance constituting the profit or loss before tax and other operating income and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result defined in PAS, however, it includes the difference in the manner of recognizing the net result on investments as described in the previous sentence;
- with respect to investments segment – a profit or loss on investment of PZU Group entities less a profit or loss allocated to insurance segments;
- with respect to investment contract – an operating profit or loss calculated in the manner similar to the technical result, in accordance with PAS;
- in the case of banking activity or foreign insurance activity – operating profit or loss in accordance with local accounting principles in the country where the company is headquartered or the IFRS before the tax.

7.4 Polish Accounting Standards applied

7.4.1. PZU

PAS and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year 2016.

The separate financial statements of PZU for 2016 are available on the PZU website at www.pzu.pl under "Investor Relations".

7.4.2. PZU Życie

PZU Życie accounting policies according to PAS are convergent with PAS regarding PZU.

In accordance with IFRS, the specific difference with respect to PZU Życie are accounting policies regarding insurance and investment contracts of PZU Życie presented in points 5.12.3, 5.12.5, 5.17.1.2, 5.17.2.2.

The key difference between PAS and IFRS as regards accounting for insurance and investment contracts of PZU is the classification of contracts. In PAS there is no concept of investment contract and, as a result, all contracts are classified as insurance contracts. According to IFRS, the classification of contracts should follow the guidelines included in IFRS 4 regarding the classification of products as insurance contracts (subject to IFRS 4) or as investment contracts (recognized in accordance with IAS 39). In the case of the latter, the written premium is not recognized. The classification of contracts is described in point 6.1.2.

7.5 Simplifications in the segment note

Some simplifications in the segment note have been made, acceptable under IFRS 8. Justification of the simplifications:

- withdrawal from presentation of information about allocation of all assets and liabilities to individual segments – the reason: no such documents are prepared or presented to the Management Board of PZU. The key information submitted to the Management Board of PZU is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources, are made. The analysis of assets and liabilities allocated to the segments is mainly limited to the monitoring of compliance with the regulatory requirements;
- presentation of the net profit or loss on an investment with a single amount expressed as a difference between realized and unrealized revenue and expenses from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- revenue and expenses other than realized and unrealized investment revenue and expenses not allocated to the "Investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation.

(in PLN million)

7.6 Quantitative data

Corporate insurance (non-life insurance)	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Gross written premiums, external	2,136	1,765
Gross written premiums, cross-segment	38	14
Gross written premiums	**2,174**	**1 779**
Changes in unearned premiums and unexpired risk reserve, gross	(263)	(88)
Earned written premiums, gross	**1,911**	**1,691**
Reinsurer's share in gross written premiums	(280)	(257)
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	10	43
Net earned premiums	**1,641**	**1,477**
Income from investments, including:	115	121
external operations	115	121
Operations among segments	-	-
Other technical income, net of reinsurance	74	49
Income	**1,830**	**1,647**
Insurance claims and benefits	(1,062)	(871)
Change in other technical provisions, net	(9)	(10)
Acquisition costs	(361)	(288)
Administrative expenses	(125)	(127)
Reinsurance commissions and shares in reinsurers' profits	21	16
Other	(65)	(57)
Profit or loss on insurance	**229**	**310**

Retail customer insurance (non-life insurance)	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Gross written premiums, external	8,742	7,309
Gross written premiums, cross-segment	91	55
Gross written premiums	**8,833**	**7,364**
Changes in unearned premiums and unexpired risk reserve, gross	(918)	(514)
Earned written premiums, gross	**7,915**	**6,850**
Reinsurer's share in gross written premiums	(96)	(63)
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	17	6
Net earned premiums	**7,836**	**6,793**
Income from investments, including:	517	518
external operations	517	518
Operations among segments	-	-
Other technical income, net of reinsurance	59	167
Income	**8,412**	**7,478**
Insurance claims and benefits	(5,275)	(4,441)
Change in other technical provisions net	(21)	(27)
Acquisition costs	(1,551)	(1,383)
Administrative expenses	(634)	(665)
Reinsurance commissions and shares in reinsurers' profits	(14)	(14)
Other	(258)	(290)
Profit or loss on insurance	**659**	**658**

(in PLN million)

Group insurance and individually continued insurance (life insurance)	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Gross written premiums, external	6,775	6,689
Gross written premiums, cross-segment	-	-
Gross written premiums	**6,775**	**6,689**
Changes in unearned premiums reserve	2	1
Earned written premiums, gross	**6,777**	**6,690**
Reinsurer's share in gross written premiums	(1)	1
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	-	-
Net earned premiums	**6,776**	**6,691**
Income from investments, including:	680	602
external operations	680	602
Operations among segments	-	-
Other technical income, net of reinsurance	1	1
Income	**7,457**	**7,294**
Insurance claims and benefits, as well as change in other technical provisions, net	(4,686)	(4,718)
Acquisition costs	(329)	(356)
Administrative expenses	(585)	(577)
Other	(72)	(68)
Profit or loss on insurance	**1,785**	**1,575**

Individual insurance (life insurance)	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Gross written premiums, external	1,174	1,234
Gross written premiums, cross-segment	-	-
Gross written premiums	**1,174**	**1,234**
Changes in unearned premiums reserve	-	-
Earned written premiums, gross	**1,174**	**1,234**
Reinsurer's share in gross written premiums	-	-
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	-	-
Net earned premiums	**1,174**	**1,234**
Income from investments, including:	288	251
external operations	288	251
Operations among segments	-	-
Other technical income, net of reinsurance	-	-
Income	**1,462**	**1,485**
Insurance claims and benefits, as well as change in other technical provisions, net	(1,043)	(1,091)
Acquisition costs	(107)	(123)
Administrative expenses	(59)	(60)
Other	(9)	(5)
Profit or loss on insurance	**244**	**206**

(in PLN million)

Investments	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Income from investments, including:	440	2,288
external operations	(570)	506
operations among segments	1,010	1,782
Operating profit or loss	**440**	**2,288**

Banking activity	1 January 2016 - 31 December 2016	1 January 2015 – 31 December 2015
Revenue from commissions and fees	590	-
Income from investments, including:	2,195	-
external operations	2,195	-
operations among segments	-	-
Income	**2,785**	**-**
Costs of commissions and fees	(260)	-
Interest expense	(681)	-
Administrative expenses	(1,210)	-
Other	57	-
Operating profit or loss	**691**	**-**

Pension insurance	1 January 2016 - 31 December2016	1 January 2015 - 31 December 2015
Income from investments, including:	5	7
external operations	5	7
operations among segments	-	-
Other income	110	119
Income	**115**	**126**
Administrative expenses	(41)	(40)
Other	-	(4)
Operating profit or loss	**74**	**82**

(in PLN million)

Insurance - the Baltic states	1 January 2016 – 31 December 2016	1 January 2015 – 31 December 2015
Gross written premiums, external	1,183	1,193
Gross written premiums, cross-segment	-	-
Gross written premiums	**1,183**	**1,193**
Changes in unearned premiums and unexpired risk reserve, gross	(48)	(47)
Earned written premiums, gross	**1,135**	**1,146**
Reinsurer's share in gross written premiums	(33)	(41)
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	2	4
Net earned premiums	**1,104**	**1,109**
Income from investments, including:	23	22
external operations	23	22
operations among segments	-	-
Income	**1,127**	**1,131**
Net insurance claims and benefits	(694)	(687)
Acquisition costs	(251)	(253)
Administrative expenses	(110)	(147)
Other	-	-
Profit or loss on insurance	**72**	**44**

Insurance - Ukraine	1 January 2016 - 31 December 2016	1 January 2015 - 31 December 2015
Gross written premiums, external	210	169
Gross written premiums, cross-segment	-	-
Gross written premiums	**210**	**169**
Changes in unearned premiums and unexpired risk reserve, gross	(16)	(16)
Earned written premiums, gross	**194**	**153**
Reinsurer's share in gross written premiums	(93)	(68)
Reinsurers' share in unearned premiums and unexpired risk reserve, gross	8	18
Net earned premiums	**109**	**103**
Income from investments, including:	23	41
external operations	23	41
operations among segments	-	-
Income	**132**	**144**
Net insurance claims and benefits	(54)	(74)
Acquisition costs	(60)	(47)
Administrative expenses	(24)	(21)
Other	21	10
Profit or loss on insurance	**15**	**12**

(in PLN million)

Investment contracts	**1 January 2016 - 31 December 2016**	**1 January 2015 - 31 December 2015**
Gross written premiums	86	141
Changes in unearned premiums reserve	-	-
Earned written premiums, gross	**86**	**141**
Reinsurer's share in gross written premiums	-	-
Reinsurer's share in unearned premiums reserve	-	-
Net earned premiums	**86**	**141**
Income from investments, including:	18	16
external operations	18	16
operations among segments	-	-
Other income	-	-
Income	**104**	**157**
Insurance claims and benefits, as well as change in other technical provisions, net	(89)	(136)
Acquisition costs	(4)	(10)
Administrative expenses	(9)	(9)
Other	-	(1)
Operating profit or loss	**2**	**1**

Other segments	**1 January 2016 - 31 December 2016**	**1 January 2015 - 31 December 2015**
Income from investments, including:	1	(13)
external operations	1	(13)
operations among segments	-	-
Other income	806	592
Income	**807**	**579**
Costs	(843)	(613)
Other	17	17
Operating profit or loss	**(19)**	**(17)**

(in PLN million)

Agreements 1 January 2016 - 31 December 2016	Net earned premiums	Income from investments	Net insurance claims and benefits	Acquisition costs	Administrative expenses	Operating profit or loss
Corporate insurance	1,641	115	(1,062)	(361)	(125)	229
Retail customer insurance	7,836	517	(5,275)	(1,551)	(634)	659
Group insurance and individually continued insurance	6,776	680	(4,686)	(329)	(585)	1,785
Individual insurance	1,174	288	(1,043)	(107)	(59)	244
Investments	-	440	-	-	-	440
Banking activity	-	2,195	-	-	(1,210)	691
Pension insurance	-	5	-	(4)	(41)	74
Insurance - the Baltic states	1,104	23	(694)	(251)	(110)	72
Insurance - Ukraine	109	23	(54)	(60)	(24)	15
Investment contracts	86	18	(89)	(4)	(9)	2
Other segments	-	1	-	-	-	(19)
Segments in total	**18,726**	**4,305**	**(12,903)**	**(2,667)**	**(2,797)**	**4,192**
Presentation of investment contracts	(86)	(7)	89	-	-	-
Estimated subrogations and salvages	-	-	30	-	-	30
Equity instruments measurement	-	55	-	-	-	55
Property valuation	-	22	-	-	1	(19)
Elimination of equalization reserve and prevention fund	-	-	-	-	-	27
Impairment losses to the Company's Social Benefits Fund and actuarial expenses	-	-	-	-	(24)	(24)
Consolidation adjustments [1]	(15)	(788)	52	54	(23)	(1,227)
Consolidated data	**18,625**	**3,587 [2]**	**(12,732)**	**(2,613)**	**(2,843)**	**3,034**

[1] Consolidation adjustments result mostly from dividends paid between given segments and from different accounting standards that are applied to reporting given reporting segments (PAS and IFRS) and consolidated data (IFRS).
[2] Sum of the following items of the consolidated profit or loss account; "Net investment income", "Net result on realization and impairment losses on investments", "Net change in the fair value of assets and liabilities measured at fair value".

Agreements 1 January 2015 - 31 December 2015	Net earned premiums	Income from investments	Net insurance claims and benefits	Acquisition costs	Administrative expenses	Operating profit or loss
Corporate insurance	1,477	121	(871)	(288)	(127)	310
Retail customer insurance	6,793	518	(4,441)	(1,383)	(665)	658
Group insurance and individually continued insurance	6,691	602	(4,718)	(356)	(577)	1,575
Individual insurance	1,234	251	(1,091)	(123)	(60)	206
Investments	-	2,288	-	-	-	2,288
Banking activity	-	-	-	-	-	-
Pension insurance	-	7	-	(3)	(40)	82
Insurance - the Baltic states	1,109	22	(687)	(253)	(147)	44
Insurance - Ukraine	103	41	(74)	(47)	(21)	12
Investment contracts	141	16	(136)	(10)	(9)	1
Other segments	-	(13)	-	-	-	(17)
Segments in total	**17,548**	**3,853**	**(12,018)**	**(2,463)**	**(1,646)**	**5,159**
Presentation of investment contracts	(141)	3	136	-	-	-
Equity instruments measurement	-	(10)	-	-	-	(10)
Property valuation	-	(35)	-	-	2	(30)
Elimination of equalization reserve and prevention fund	-	-	-	-	-	25
Impairment losses to the Company's Social Benefits Fund and actuarial expenses	-	-	-	-	(18)	(18)
Consolidation adjustments [1]	(22)	(2 072)	25	87	4	(2 186)
Consolidated data	**17,385**	**1,739 [2]**	**(11,857)**	**(2,376)**	**(1,658)**	**2,940**

[1] Consolidation adjustments result mostly from dividends paid between given segments and from different accounting standards that are applied to reporting given reporting segments (PAS and IFRS) and consolidated data (IFRS).
[2] Sum of the following items of the consolidated profit or loss account; "Net investment income", "Net result on realization and impairment losses on investments", "Net change in the fair value of assets and liabilities measured at fair value".

(in PLN million)

Geographical division 2016	**Poland**	**The Baltic states**	**Ukraine**	**Non-allocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premiums, external	18,826	1,183	210	-	20,219
Gross written premiums, cross-segment	105	-	-	(105)	-
Revenue from commissions and fees	808	-	-	-	808
Net investment income	4,130	13	22	-	4,165
Net result on realization and impairment losses on investments	(934)	(1)	-	-	(935)
Net change in the fair value of assets and liabilities measured at fair value	345	11	1	-	357
Non-current assets other than financial [1]	2,650	276	4	-	2,930
Deferred tax assets	622	-	2	-	624
Assets	124,510	2,021	262	(1,448)	125,345

[1] It concerns intangible assets and tangible fixed assets.

Geographical division 2015 (data restated)	**Poland**	**The Baltic states**	**Ukraine**	**Non-allocated (consolidation eliminations and other)**	**Consolidated value**
Gross written premiums, external	16,998	1,193	169	(1)	18,359
Gross written premiums, cross-segment	65	-	-	(65)	-
Revenue from commissions and fees	243	-	-	-	243
Net investment income	1,512	17	42	-	1,571
Net result on realization and impairment losses on investments	(390)	4	(2)	165	(223)
Net change in the fair value of assets and liabilities measured at fair value	389	1	1	-	391
Non-current assets other than financial [1]	2,388	302	3	-	2,693
Deferred tax assets	366	-	1	2	369
Assets	104,706	1,826	217	(1,352)	105,397

[1] t concerns intangible assets and tangible fixed assets.

7.7 Information on key accounts

Due to the nature of operations undertaken by the companies of PZU Group, there are no accounts that would provide 10% or more of total revenues of PZU Group (defined as gross written premium). The note 49.3 presents revenues from biggest business partners of PZU Groups which are the entities controlled by the State Treasury.

8. Risk management

8.1 Introduction

Risk management is aimed at:

- increasing the value of PZU Group through active and conscious management of risk assumed;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

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

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of both strategic plans of individual companies and business objectives of the whole PZU Group. These include i.a.:

- systems of limits and restrictions of the acceptable risk level, including the level of risk appetite;
- processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;
- organizational structure of risk management, in which Management Boards and Supervisory Boards of companies as well as dedicated Committees play the key role.

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

- organizational structure – including division of responsibilities and tasks performed by statutory bodies, committees as well as individual organizational units in the risk management process;
- the risk management process – including the methods of identification, measurement and assessment, monitoring and control, reporting risk and taking management action.

Risk management strategy at PZU Group and individual PZU Group's companies defines the framework of risk management by setting out limits of risk parameters (the definition of risk appetite and risk profile), indicating the roles and responsibilities of participants in the risk management, and its process. It is also used to improve business planning and maintaining the risk on an acceptable level.

The strategy and related policies of individual risk category management are aimed at:

- introducing a uniform definition of risk management;
- introducing the principles of identification, measurement and assessment, monitoring and control of risks, as well as decision-making with respect to their magnitude.
- determining the risk appetite and risk profile.

As part of the preparation to implement the Solvency II system, PZU Group's insurance entities were primarily covered by coherent, integrated risk management system of PZU Group. The approach introduced in 2015 ensures compliance with the requirements of the act of 11 September 2015 on insurance and reinsurance activity (Journal of Laws of 2015, item 1844), which came into force on 1 January 2016. Entities from other sectors of the financial market are required to apply standards that are appropriate to their sector. Adopted internal regulations specify:

- processes, methods and procedures for measuring and managing risk;
- division of responsibilities in the risk management process;
- scope, conditions and frequency of risk management reports.

PZU supervises the risk management system of PZU Group on the basis of cooperation agreements concluded with PZU Group's entities. On the basis of received information, PZU manages the risk of PZU Group in aggregate terms. Concluded agreements and the scope of shared information include the legal specificity of given entities, including limitations due to banking secrecy.

In order to guarantee the effectiveness of risk management at the level of PZU Group, the risk management principles including PZU recommendation in the scope of risk management system organization (both in the insurance and banking sectors) have been introduced in the subsidiaries.

Management Boards of PZU Group's entities are responsible for fulfilling their obligations in line with generally applicable local, European and international legal regulations, in particular, implementing adequate and effective risk management system.

Supervisory Boards, which PZU appoints their representatives to, supervise risk management systems as implemented in respective regulated entities.

8.2 Organizational structure

The organizational structure of risk management system is consistent in PZU Group's individual insurance companies and includes four competence levels:

The first three are:

- Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the given company's Articles of Association and the Supervisory Board rules and regulations;
- Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the risk appetite, the risk profile and tolerance for individual categories of risk;
- Committees, which make decisions on reducing individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits. Risk Committee of PZU Group, established in 2016, provides support (of both supervisory boards and management boards of its subsidiaries) in the implementation of effective system of risk management, coherent to the entire PZU Group. The aim of the activity of PZU Group's Risk Committee is to coordinate operations and supervise systems and processes of risk management which occur in PZU Group.

The fourth competence level relates to operational actions and is divided between the three lines of defense:

- first line of defense – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- second line of defense – denotes risk management by specialized units responsible for risk identification, monitoring and reporting, as well as controlling limits;
- third line of defense – comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the activity.

In the risk management process at Alior Bank, Management Board and Supervisory Board of Alior Bank, as well as Assets and Liabilities Management Committee play an active role.

The Supervisory Board of Alior Bank supervises the risk management process and establishes an appropriate strategy each year. The Supervisory Board of Alior Bank is responsible for accepting policy and guidelines related to risk management and determining detailed limits for reduction of Alior Bank risk, as well as providing a proper mechanism for their control.

The Assets and Liabilities Management Committee exercises daily control over market risk management, including liquidity risk, accepts limits of operations on money and capital markets. It makes all decisions provided that they have not been previously qualified as exclusive competence of Alior Bank Management Board or Supervisory Board.

8.3 Risk appetite, risk profile and risk tolerance

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

The risk appetite has been defined as the risk that the company is prepared to accept in pursuit of its business goals. The measure of risk appetite is the level of potential financial loss, decrease in the value of assets or an increase in the value of liabilities in the period of one year. The level of risk appetite is defined as the minimum capital requirement coverage ratio. The risk appetite determines the maximal level of acceptable risk when setting limits and restrictions for individual partial risks and the level which, when exceeded, results in taking specific management measures necessary to limit further risk growth.

The risk profile involves quantitative limits which define the risk appetite more precisely.

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

Such an attitude ensures appropriateness and efficiency of the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of both individual companies and the entire PZU Group. The company's Management Board is responsible for determining the appropriate risk level for that company. The risk unit reviews the level of risk appetite once a year. All activities are coordinated at the level of PZU Group.

The key assumptions of market and liquidity risk management strategy at Alior Bank are included in the assets and liabilities management policy which is drafted on annual basis and presented by the Management Board of Alior Bank to the Supervisory Board of Alior Bank for approval as a part of the year budget. In banking activity, the exposure to market and liquidity risk is formally mitigated by the system of periodically updated limits cover all measures of said risks.

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

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

- identification – beginning with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process, and upon the occurrence of any other event which potentially results in a risk. The identification process takes place until the expiry of the liabilities, receivables or activities related to the given risk. Identification of risk consists in the identification of actual and potential sources of risk, which are later analyzed in terms of significance;
- measurement and evaluation of risk – depending on the characteristics of a given risk type and the level of its significance. Risk is measured by specialized units. The risk unit in each company is responsible for the development of tools and measurement of risk in terms of risk appetite, risk profile and tolerance limits;
- monitoring and control of risk – consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values, as well as recommendations and guidance issued;
- reporting – allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions, including i.a.: risk avoidance, risk transfer, risk mitigation, determination of risk appetite, risk level acceptance, as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

Two levels are distinguished in the risk management process:

- PZU Group level – ensures that PZU Group implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and types of risk specific to PZU Group, such as: catastrophe risk, financial risk, counterparty risk and risk concentration. PZU Group ensures support in the implementation of an integrated risk management system, including the introduction of coherent mechanisms, standards, and an efficient functioning of the internal control system (with emphasis on the compliance function), risk management system (in particular in the field of reinsurance), and safety management system within PZU Group, as well as monitors their current use. While carrying out their tasks within the integrated risk management system, the authorized persons of PZU Group cooperate with the boards of subsidiaries and the management of areas such as finance, risk, actuary, reinsurance, investments and compliance, on the basis of appropriate cooperation agreements;
- company level – ensures that the company implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in a given entity and within the framework of the integrated risk management system and the implementation of mechanisms, standards, and an efficient functioning of the internal control system (with emphasis on the compliance function), risk management system (in particular in the field of reinsurance) and safety management system.

8.5 Risk profile

PZU Group is exposed to the following main types of risk: actuarial, market (particularly interest rate risk), credit (particularly related to credit portfolio of the bank), concentration, operational and non-compliance.

The main types of risk related to banking activity are the following: credit, operational and market (including risks concerning interest rate, currency, and prices of goods).

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

Actuarial risk is a possibility of loss or unfavorable change in the value of liabilities that can result from insurance contracts and insurance guarantee agreements, from incorrect assumptions regarding measurement of premiums and recognition of technical provisions.

Actuarial risk includes:

	Non-life insurance	Life insurance
Longevity risk – a possibility of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities,	X	X
Cost risk – a possibility of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management.	X	X
Laps Risk – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators, including withdrawal from contracts, termination or buyout of policies.	X	X
Catastrophe risk – a possibility of loss or unfavorable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and recognition of technical provisions for extreme or exceptional events.	X	X
Premium risk – a risk of improper estimation of tariff rates and the possibility of deviation from the expected written premium levels, resulting from volatility of occurrence, frequency and scale of insured events.	X	n/a
Provision risk – a risk of improper estimation of the level of technical provisions, as well as the possibility of fluctuations in the actual damage within the scope of its statistical average due to the stochastic nature of future claim payments.	X	n/a
Annuity revision risk – a risk of loss or unfavorable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured.	X	n/a
Mortality risk – a possibility of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities.	n/a	X
Disability risk – a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases.	n/a	X

PZU Group manages actuarial risk i.a. by way of:

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

Calculation and monitoring of adequacy of technical provisions

PZU Group manages the adequacy risk of technical provisions through application of appropriate calculation technology and control of processes related to determining of provisions. The provisioning policy is based on:

- prudent approach to determining technical provisions,
- continuity principle, consisting in the changelessness of the methods of technical provisioning, provided there are no significant circumstances which justify introduction of changes.

For non-life insurance, the level of technical provisions is evaluated once a month and in specific circumstances (making a payment, obtaining new information from liquidators or lawyers) their amount is updated. History of development and payments per balance sheet year is used to analyze the amount of technical provisions. The analysis results in assessment of precision of actuarial methods.

For life insurance products, public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. Periodic statistical analyses of claims incidence are made at the level of product groups, individual insurance portfolios and well-defined homogeneous risk groups. These analyses allow determining relative frequency of claims compared to public statistics. The use of appropriate statistical methods allows to determine the significance of the determined statistics. If necessary, determined appropriate security charges are applied when creating technical provisions and risk evaluation.

Estimating of technical provisions in PZU Group is supervised by main actuaries.

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

The purpose of the tariff policy is to ensure an adequate premium level, sufficient to cover the existing and future liabilities arising on concluded policies and expenses. Along with developing a tariff, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are regularly carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given financial year. Frequency of analyses is adjusted to the materiality of the product and possible result fluctuation. If the course of insurance is unfavorable, activities are undertaken to restore a defined profitability level, involving adjusting premium tariffs or the insured risk profile through modifying general insurance terms.

Underwriting

Regarding corporate customers and SME, a separate underwriting process independent from the sales function is carried out. The process of selling insurance for corporate customers is preceded with an analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a risk acceptance system depending on competency scopes and limits granted.

Reinsurance

The objective of the reinsurance program of PZU Group in non-life insurance is to secure its core business by mitigation of catastrophic risk that may negatively impact the financial standing of PZU Group. The task is performed in the form of concluding obligatory contracts with additional facultative reinsurance.

PZU Group limits its risk i.a. by way of:

- non-proportional excess of loss treaties which protect the portfolios against catastrophic losses (e.g. flood, hurricane);

(in PLN million)

- non-proportional excess of loss treaties which protect property, technical, marine, aviation, TPL and MTPL portfolios against the effects of large single losses;
- proportional treaties which protect the financial insurance portfolio.

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

8.5.1.1. Exposure to actuarial risk – non-life insurance

Primary cost ratios in non-life insurance	**1 January – 31 December 2016**	**1 January – 31 December 2015**
Expense ratio	28.70%	29.96%
Claims ratio, net of reinsurance	65.66%	63.82%
Reinsurer's retention ratio	3.53%	3.54%
Combined ratio	94.36%	93.78%

The expense ratio is calculated by dividing the total acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits by the net premiums earned.

The claims ratio net of reinsurance is calculated by dividing claims and the net change in technical provisions by the net premiums earned.

The reinsurer's retention ratio is calculated by dividing a reinsurer's share in gross written premiums by the gross written premiums.

The combined ratio is defined as the ratio of the total of acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits, claims and changes in net technical provisions to the net earned premiums.

(in PLN million)

The following tables present development of technical provisions and payments in subsequent financial years.

Claims development in direct property and personal insurance, gross (by financial year)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Provision at the end of the financial year	7,898	8,293	8,699	9,381	9,870	10,989	11,783	13,312	13,163	13,181
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	7,698	8,382	8,561	9,681	10,298	11,286	12,241	13,032	12,908	
- calculated two years later	7,833	8,410	8,856	10,192	10,753	11,958	12,180	12,719		
- calculated three years later	7,852	8,758	9,346	10,719	11,590	11,973	12,080			
- calculated four years later	8,141	9,215	9,874	11,574	11,738	11,910				
- calculated five years later	8,600	9,724	10,712	11,735	11,702					
- calculated six years later	9,077	10,558	10,875	11,795						
- calculated seven years later	9,842	10,747	10,971							
- calculated eight years later	10,028	10,907								
- calculated nine years later	10,303									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	10,303	10,907	10,971	11,795	11,702	11,910	12,080	12,719	12,908	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	5,554	5,777	5,460	5,824	5,173	4,786	4,198	3,728	2,532	
Provision recognized in the statement of financial positions	4,749	5,130	5,511	5,971	6,529	7,124	7,882	8,991	10,376	
Difference between the provision as at the end of the first year and the run-off result estimated at the end of the reporting year	(2,405)	(2,614)	(2,272)	(2,414)	(1,832)	(921)	(297)	593	255	
The above difference as a percentage of the first year provision	-30%	-32%	-26%	-26%	-19%	-8%	-3%	4%	2%	

(in PLN million)

Claims development in direct property and personal insurance, net of reinsurance (by financial year)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Provision at the end of the financial year	6,916	7,433	7,973	8,639	9,305	10,413	11,453	12,814	12,653	12,559
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	6,791	7,568	7,844	8,838	9,731	10,722	11,787	12,525	12,355	
- calculated two years later	6,969	7,598	8,092	9,345	10,185	11,282	11,704	12,071		
- calculated three years later	6,991	7,910	8,558	9,873	10,947	11,278	11,599			
- calculated four years later	7,246	8,344	9,106	10,672	11,071	11,215				
- calculated five years later	7,683	8,875	9,892	10,818	11,047					
- calculated six years later	8,189	9,657	10,037	10,884						
- calculated seven years later	8,904	9,827	10,145							
- calculated eight years later	9,070	10,000								
- calculated nine years later	9,336									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	9,336	10,000	10,145	10,884	11,047	11,215	11,599	12,071	12,355	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	4,759	5,027	4,793	5,091	4,722	4,376	4,053	3,604	2,468	
Provision recognized in the statement of financial positions	4,577	4,973	5,352	5,793	6,325	6,839	7,546	8,467	9,887	
Difference between the provision as at the end of the first year and the run-off result estimated at the end of the reporting year	(2,420)	(2,567)	(2,172)	(2,245)	(1,742)	(802)	(146)	743	298	
The above difference as a percentage of the first year provision	-35%	-35%	-27%	-26%	-19%	-8%	-1%	6%	2%	

Vehicle insurance products (TPL and MTPL) account for the major part of PZU Group's portfolio. Both types of insurance are usually concluded for a year, during which a claim must occur to be covered. MTPL is based on a claim-made principle, so it is not a source of uncertainty. It is unlike TPL, which is an occurrence insurance (there is up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In the case of TPL contracts, new types of claims emerge along with additional deferred claims, which significantly add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

Due to the climate conditions of the region where PZU Group operates, the concentration risk may occur in the case of catastrophic damage, such as floods or hurricanes. Therefore, catastrophic damage PZU Group is exposed to is presented below, broken down by voivodeships (for operations conducted in Poland) and countries (for foreign operations).

Risk concentration in non-life insurance – flood and hurricane claims exposure as at 31 December 2016		Sum insured						Total
		0-0.2	0.2 - 0.5	0.5 -2	2 - 10	10 - 50	over 50	
		PLN million	PLN million	PLN million	PLN million	PLN million	PLN million	
Dolnośląskie	Sum insured	1.1%	1.6%	1.2%	1.9%	1.2%	2.1%	**9.1%**
	Number of policies	5.6%	1.2%	0.3%	0.1%	0.0%	0.0%	**7.2%**
Kujawsko-Pomorskie	Sum insured	0.7%	0.9%	0.6%	0.4%	0.5%	1.2%	**4.3%**
	Number of policies	3.7%	0.7%	0.2%	0.0%	0.0%	0.0%	**4.6%**
Lubelskie	Sum insured	0.8%	0.7%	0.3%	0.2%	0.2%	1.2%	**3.4%**
	Number of policies	3.5%	0.6%	0.1%	0.0%	0.0%	0.0%	**4.2%**
Lubuskie	Sum insured	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	**1.9%**
	Number of policies	1.5%	0.3%	0.1%	0.0%	0.0%	0.0%	**1.9%**
Łódzkie	Sum insured	0.7%	1.2%	0.7%	0.3%	0.4%	2.9%	**6.2%**
	Number of policies	3.9%	0.9%	0.2%	0.0%	0.0%	0.0%	**5.0%**
Małopolskie	Sum insured	0.9%	1.9%	0.8%	0.5%	0.5%	1.4%	**6.0%**
	Number of policies	4.4%	1.4%	0.3%	0.0%	0.0%	0.0%	**6.1%**
Mazowieckie	Sum insured	1.9%	4.0%	2.6%	1.1%	1.5%	8.6%	**19.7%**
	Number of policies	10.1%	2.8%	0.8%	0.1%	0.0%	0.0%	**13.8%**
Opolskie	Sum insured	0.3%	0.6%	0.4%	0.3%	0.3%	0.7%	**2.6%**
	Number of policies	1.7%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.2%**
Podkarpackie	Sum insured	0.8%	1.0%	0.3%	0.3%	0.3%	0.4%	**3.1%**
	Number of policies	3.3%	0.8%	0.1%	0.0%	0.0%	0.0%	**4.2%**
Podlaskie	Sum insured	0.4%	0.5%	0.4%	0.2%	0.2%	0.1%	**1.8%**
	Number of policies	1.8%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.3%**
Pomorskie	Sum insured	0.7%	1.2%	0.9%	0.6%	0.9%	1.9%	**6.2%**
	Number of policies	3.9%	0.9%	0.3%	0.0%	0.0%	0.0%	**5.1%**
Śląskie	Sum insured	1.1%	1.7%	0.9%	0.5%	0.5%	1.5%	**6.2%**
	Number of policies	5.7%	1.3%	0.3%	0.0%	0.0%	0.0%	**7.3%**
Świętokrzyskie	Sum insured	0.4%	0.5%	0.1%	0.1%	0.1%	0.1%	**1.3%**
	Number of policies	1.5%	0.4%	0.0%	0.0%	0.0%	0.0%	**1.9%**
Warmińsko-Mazurskie	Sum insured	0.4%	0.5%	0.4%	0.3%	0.2%	0.6%	**2.4%**
	Number of policies	2.0%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.5%**
Wielkopolskie	Sum insured	1.1%	1.9%	1.4%	0.8%	0.6%	1.5%	**7.3%**
	Number of policies	6.0%	1.4%	0.4%	0.0%	0.0%	0.0%	**7.8%**
Zachodniopomorskie	Sum insured	0.3%	0.4%	0.4%	0.5%	0.6%	1.7%	**3.9%**
	Number of policies	2.1%	0.3%	0.1%	0.0%	0.0%	0.0%	**2.5%**
Lithuania and Estonia	Sum insured	0.7%	1.6%	2.9%	1.5%	1.3%	2.0%	**10.0%**
	Number of policies	1.8%	14.0%	3.5%	0.5%	0.1%	0.0%	**19.9%**
Latvia	Sum insured	0.2%	0.8%	0.9%	0.6%	0.7%	1.4%	**4.6%**
	Number of policies	0.5%	0.6%	0.2%	0.0%	0.0%	0.0%	**1.3%**
Ukraine	Sum insured	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**

Risk concentration in non-life insurance – flood and hurricane claims exposure as at 31 December 2016		Sum insured						Total
		0-0.2	0.2 - 0.5	0.5 -2	2 - 10	10 - 50	over 50	
		PLN million	PLN million	PLN million	PLN million	PLN million	PLN million	
	Number of policies	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Total	**Sum insured**	**12.8%**	**21.3%**	**15.5%**	**10.5%**	**10.3%**	**29.6%**	**100.0%**
	Number of policies	**63.2%**	**28.8%**	**7.2%**	**0.7%**	**0.1%**	**0.0%**	**100.0%**

Risk concentration in non-life insurance – flood and hurricane claims exposure as at 31 December 2015		Sum insured						Total
		0-0.2	0.2 - 0.5	0.5 -2	2 - 10	10 - 50	over 50	
		PLN million	PLN million	PLN million	PLN million	PLN million	PLN million	
Dolnośląskie	Sum insured	1.1%	1.6%	1.2%	1.9%	1.3%	1.6%	**8.7%**
	Number of policies	5.6%	1.1%	0.3%	0.1%	0.0%	0.0%	**7.1%**
Kujawsko-Pomorskie	Sum insured	0.7%	0.9%	0.5%	0.5%	0.6%	0.8%	**4.0%**
	Number of policies	3.8%	0.6%	0.1%	0.0%	0.0%	0.0%	**4.5%**
Lubelskie	Sum insured	0.9%	0.7%	0.2%	0.2%	0.3%	0.8%	**3.1%**
	Number of policies	3.7%	0.5%	0.1%	0.0%	0.0%	0.0%	**4.3%**
Lubuskie	Sum insured	0.3%	0.4%	0.2%	0.4%	0.3%	0.3%	**1.9%**
	Number of policies	1.5%	0.3%	0.1%	0.0%	0.0%	0.0%	**1.9%**
Łódzkie	Sum insured	0.8%	1.3%	0.7%	0.3%	0.5%	1.7%	**5.3%**
	Number of policies	4.1%	0.9%	0.2%	0.0%	0.0%	0.0%	**5.2%**
Małopolskie	Sum insured	1.0%	1.9%	0.8%	0.5%	0.7%	1.4%	**6.3%**
	Number of policies	4.5%	1.4%	0.2%	0.0%	0.0%	0.0%	**6.1%**
Mazowieckie	Sum insured	2.0%	3.9%	2.6%	1.1%	1.6%	8.3%	**19.5%**
	Number of policies	10.3%	2.7%	0.7%	0.1%	0.0%	0.0%	**13.8%**
Opolskie	Sum insured	0.4%	0.6%	0.4%	0.4%	0.5%	0.7%	**3.0%**
	Number of policies	1.7%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.2%**
Podkarpackie	Sum insured	0.9%	1.0%	0.3%	0.3%	0.4%	0.6%	**3.5%**
	Number of policies	3.8%	0.7%	0.1%	0.0%	0.0%	0.0%	**4.6%**
Podlaskie	Sum insured	0.4%	0.6%	0.3%	0.2%	0.2%	0.1%	**1.8%**
	Number of policies	1.9%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.4%**
Pomorskie	Sum insured	0.7%	1.2%	0.9%	0.7%	1.1%	2.0%	**6.6%**
	Number of policies	3.9%	0.9%	0.2%	0.0%	0.0%	0.0%	**5.0%**
Śląskie	Sum insured	1.1%	1.7%	0.9%	0.6%	0.8%	1.8%	**6.9%**
	Number of policies	5.8%	1.2%	0.3%	0.0%	0.0%	0.0%	**7.3%**
Świętokrzyskie	Sum insured	0.4%	0.4%	0.1%	0.1%	0.1%	0.1%	**1.2%**
	Number of policies	1.6%	0.3%	0.0%	0.0%	0.0%	0.0%	**1.9%**
Warmińsko-Mazurskie	Sum insured	0.4%	0.5%	0.4%	0.4%	0.4%	0.7%	**2.8%**
	Number of policies	2.0%	0.4%	0.1%	0.0%	0.0%	0.0%	**2.5%**
Wielkopolskie	Sum insured	1.2%	2.0%	1.4%	0.9%	0.8%	1.7%	**8.0%**
	Number of policies	6.1%	1.4%	0.4%	0.0%	0.0%	0.0%	**7.9%**
Zachodniopomorskie	Sum insured	0.4%	0.5%	0.4%	0.6%	0.8%	1.3%	**4.0%**
	Number of policies	2.1%	0.3%	0.1%	0.0%	0.0%	0.0%	**2.5%**
Lithuania and Estonia	Sum insured	0.7%	1.4%	2.7%	1.5%	1.3%	1.7%	**9.3%**
	Number of policies	1.7%	13.7%	3.2%	0.5%	0.1%	0.0%	**19.2%**
Latvia	Sum insured	0.3%	0.8%	0.9%	0.5%	0.6%	1.0%	**4.1%**
	Number of policies	0.6%	0.6%	0.2%	0.0%	0.0%	0.0%	**1.4%**
Ukraine	Sum insured	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**
	Number of policies	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.2%**
Total	**Sum insured**	**13.7%**	**21.4%**	**14.9%**	**11.1%**	**12.3%**	**26.6%**	**100.0%**
	Number of policies	**64.9%**	**27.8%**	**6.5%**	**0.7%**	**0.1%**	**0.0%**	**100.0%**

Risk concentration in non-life insurance – TPL other than vehicle insurance

Risk concentration in property and casualty general liability insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premiums in non-life insurance – TPL as at 31 December 2016	Sum insured					Total
	0-0.2 PLN million	0.2-0.5 PLN million	0.5-1 PLN million	1-2 PLN million	over PLN 2 million	
General TPL in personal life and other	20.0%	3.3%	2.3%	2.8%	15.1%	**43.5%**
Medical TPL	0.6%	1.1%	1.1%	6.0%	21.1%	**29.9%**
Professional TPL except for medical and agricultural (legal, consulting, etc.)	8.6%	4.1%	2.0%	2.4%	4.6%	**21.7%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	4.8%	0.0%	**4.8%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.0%	**0.1%**
Total	**29.2%**	**8.5%**	**5.4%**	**16.0%**	**40.9%**	**100.0%**

Gross written premiums in non-life insurance – TPL as at 31 December 2015	Sum insured					Total
	0-0.2 PLN million	0.2-0.5 PLN million	0.5-1 PLN million	1-2 PLN million	over PLN 2 million	
General TPL in personal life and other	18.4%	3.4%	2.3%	2.9%	12.7%	**39.7%**
Medical TPL	0.5%	1.2%	1.1%	6.0%	26.3%	**35.1%**
Professional TPL except for medical and agricultural (legal, consulting, etc.)	8.0%	3.6%	1.7%	2.1%	4.4%	**19.8%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	5.3%	0.0%	**5.3%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**26.9%**	**8.2%**	**5.1%**	**16.3%**	**43.5%**	**100.0%**

Capitalized annuity amount

The below results do not take into account the impact of changes in valuation of deposits taken into consideration in the calculation of the provision value.

Impact of change in the assumptions for the provision for gross capitalized value of annuities in non-life and life insurance on net financial result and own funds	31 December 2016	31 December 2015
Technical rate – increase by 0.5 p.p.	414	427
Technical rate – decrease by 1.0 p.p.	(1,071)	(1,104)
Mortality at 110% of the currently assumed rate	128	132
Mortality at 90% of the currently assumed rate	(143)	(147)

Change in the assumptions for the provision for capitalized value of annuities net of reinsurance in non-life and life insurance on net financial result and own funds	31 December 2016	31 December 2015
Technical rate – increase by 0.5 p.p.	398	412
Technical rate – decrease by 1.0 p.p.	(1,030)	(1,064)
Mortality at 110% of the currently assumed rate	124	127
Mortality at 90% of the currently assumed rate	(138)	(142)

(in PLN million)

8.5.1.2. Exposure to insurance risk – life insurance

PZU Group has not presented information on the development of claims in life insurance due to the fact that the uncertainty regarding amounts and claim payment periods usually stops within one year.

Risk concentration in this group is related to the concentration of contracts or sums insured. For traditional individual insurance products, where risk of concentration is related to occurrence probability of the covered event or to potential claims amounts arising on a single event, risk assessment is based on case-by-case approach. The assessment includes both medical risk and – in justified cases – financial risk. Such an approach allows selection of risks (evaluation of an individual concluding an insurance contract) and defining of the maximum acceptable risk level.

In group insurance, concentration risk occurrence is limited by the contract portfolio size. This allows for significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract, under which all the insured have the same sum insured and coverage is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In the case of group insurance contracts, allowing adjusting of coverage at the level of each group of contracts, a simplified risk assessment is applied. It is carried out on the basis of information about the industry of a given employer, assuming appropriate participation limits of the insured in respect of all persons employed in the workplace. In such cases, premium and charges are based on statistical analyses carried out in relation to the frequency of claims on the level of defined homogeneous risk groups, including relative frequency of events compared to public statistics.

It should be noted that for most contracts the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio	Effect of change in the assumptions on net financial result		Effect of change in the assumptions on equity	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Technical interest rate – decrease by 1.0 p.p.	(29)	(32)	(29)	(32)
Mortality at 90% of the currently assumed rate	(11)	(12)	(11)	(12)

Life insurance with DPF excluding annuity insurance products

Change in the assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products	Effect of change in the assumptions on net financial result		Effect of change in the assumptions on equity	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Technical interest rate – decrease by 1.0 p.p.	(2,112)	(2,157)	(2,112)	(2,157)
Mortality at 110% of the currently assumed rate	(891)	(902)	(891)	(902)
110% morbidity and accident rate	(153)	(179)	(153)	(179)

(in PLN million)

Effects of customers' withdrawing from life insurance

Calculation of technical provisions for life insurance does not include the risk of the insured's withdrawal. The effects of hypothetical withdrawal of 10% of total customers with life insurance products in PZU Życie are presented below.

Item in financial statements	31 December 2016	31 December 2015
Change in technical provisions	2,098	2,117
Claims and benefits paid	(791)	(803)
Change in deferred acquisition costs	(7)	(7)
Gross financial profit/loss	1,299	1,306
Net financial profit/loss	1,052	1,058
Equity	1,052	1,058

8.5.2. Market risk

Market risk is a risk of a loss or an unfavorable change in the financial situation, resulting directly or indirectly from changes in the level or volatility of market prices of assets, credit spread, value of liabilities and financial instruments.

Market risk in PZU Group includes:

- share price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market share prices or their volatility;
- unquoted share price – a possibility of incurring a loss following changes in the value of unquoted shares;
- property price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices of properties or their volatility;
- goods price risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices of goods or their volatility;
- inflation risk – a possibility of incurring a loss resulting from inflation, in particular inflation of goods and services prices, as well as expectations regarding the future inflation level which impact valuation of assets and liabilities;
- liquidity risk – the inability to realize investments and other assets with no impact on their market prices in order to settle one's financial liabilities when they fall due;
- interest rate risk – a possibility of incurring a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in the term structure of market interest rates or volatility of these risk-free rates;
- basis risk – a possibility of incurring a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in the term structure of market interest rate spreads as compared to risk-free rates or volatility of these spreads – with the exception of credit spreads;
- currency risk – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in exchange rates or their volatility;
- credit spread risk – a possibility of incurring losses due to changes in the value of assets, liabilities and financial instruments arising from changes in the level of credit spreads with regard to the time structure of interest rates of debt securities issued by the State Treasury or their volatility;
- concentration risk – a possibility of incurring a loss arising from lack of diversification in the portfolio of assets or from high exposure to the risk of failure to fulfill one's obligations by a single issuer of securities or a group of related issuers.

(in PLN million)

Concentration risk and credit spread risk are regarded as an integral part of market risk when measuring risk for the purpose of evaluating a risk profile, risk tolerance, and reporting indicators of market risk. However, the process of managing these risks is different in nature than in the case of other subcategories of market risk, and it is described in point 8.5.3, along with the process of managing the insolvency risk.

Market risk in PZU Group originates from three key sources:

- matching of assets and liabilities (ALM portfolio);
- strategic allocation of assets, i.e. determining an optimum medium-term structure of assets (AA portfolios);
- banking activity at Alior Bank – as a result of which PZU Group significantly increased exposure to interest rate risk and credit risk.

The investment activity in PZU Group entities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Departments of risk take part in the risk identification process, measure those risks, monitor and report them. Market risk is measured using the value at risk method (VaR). The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. In order to effectively manage market risk, limits in a form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined.

In Alior Bank, the exposure to market and liquidity risk is mitigated by the system of periodically updated limits introduced by the resolution of the Supervisory Board or the Management Board, which cover all measures of risk. In Alior Bank, there are three types of limits which differ in scope and functioning method – basic, supplementary and stress-test limits. The market risk management focuses on potential changes in economic result.

Market risk exposure

Carrying amount as at 31 December 2016	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**99,125**	**1,463**	**100,588**
Fixed interest debt securities	34.1 34.2, 34.3, 34.4	35,688	1,140	36,828
Floating interest debt securities	34.1 34.2, 34.3, 34.4	8,078	105	8,183
Loan receivables from clients	34.4	45,029	-	45,029
Term deposits with credit institutions	34.4	2,068	217	2,285
Loans	34.4	1,708	-	1,708
Cash	36	2,972	1	2,973
Buy-sell-back transactions	34.4	2,880	-	2,880
Derivative instruments	34.3	702	-	702
Financial assets exposed to other price risk		**3,912**	**3,773**	**7,685**
Equity instruments	34.2, 34.3	3,661	3,773	7,434
Derivative instruments	34.3	251	-	251
Total		**103,037**	**5,236**	**108,273**

(in PLN million)

Carrying amount as at 31 December 2015	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**82,761**	**1,625**	**84,386**
Fixed interest debt securities	34.1, 34.2, 34.3, 34.4	30,962	1,430	32,392
Floating interest debt securities	34.1, 34.2, 34.3, 34.4	7,963	104	8,067
Loan receivables from clients	34.4	30,254	-	30,254
Term deposits with credit institutions	34.4	5,188	91	5,279
Loans	34.4	1,929	-	1,929
Cash	36	2,440	-	2,440
Buy-sell-back transactions	34.4	3,133	-	3,133
Derivative instruments		892	-	892
Financial assets exposed to other price risk		**3,742**	**3,541**	**7,283**
Equity instruments	34.2, 34.3	3,520	3,541	7,061
Derivative instruments	34.3	222	-	222
Total		**86,503**	**5,166**	**91,669**

Unit-linked financial assets are presented in the table below, by portfolio classification in which they were included:

Unit-linked financial assets	31 December 2016	31 December 2015
Financial assets measured at fair value – classified as such upon initial recognition	**61**	**-**
Equity instruments	56	-
Listed on the regulated market	53	-
Not listed on the regulated market	3	-
Debt instruments – government – foreign – fixed interest	5	-
Assets held for trading	**4,957**	**5,075**
Equity instruments	3,717	3,541
Listed on the regulated market	398	519
Not listed on the regulated market	3,319	3,022
Debt instruments	1,240	1,534
Government	1,167	1,460
National	1,167	1,460
Fixed interest	1,135	1,430
Floating rate	32	30
Other – unquoted on the regulated market – Floating rate	73	74
Loans	**217**	**91**
Term deposits with credit institutions	217	91
Cash	**1**	**-**
Unit-linked financial assets in total	**5,236**	**5,166**

In its investing activities PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks.

(in PLN million)

The table below presents PZU Group's derivatives as at 31 December 2016 and 31 December 2015.

Interest rate derivatives	Base amount by maturity as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
Instruments presented as cash flows hedges – OTC instruments, including:	1,100	2,225	3,394	250	6,969	72	6
- SWAP transactions	1,100	2,225	3,394	250	6,969	72	6
Instruments presented as held for trading, including:	**5,561**	**22,338**	**125,079**	**9,561**	**162,539**	**630**	**633**
Instruments listed on the regulated market, including:	1,355	-	361	-	1,716	7	19
- futures	1,355	-	361	-	1,716	7	19
OTC instruments, including:	4,206	22,338	124,718	9,561	160,823	623	614
- SWAP transactions	3,475	21,277	123,136	9,452	157,340	597	586
- call options (purchase)	-	43	539	-	582	4	-
- put options (sales)	132	933	1,007	109	2,181	-	6
- other	599	85	36	-	720	22	22
Total interest rate derivatives	**6,661**	**24,563**	**128,473**	**9,811**	**169,508**	**702**	**639**

Interest rate derivatives	Base amount by maturity as at 31 December 2015					Assets as at 31 December 2015	Liabilities as at 31 December 2015
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
Instruments presented as cash flows hedges – unquoted instruments, including:	100	6,060	4,635	-	10,795	140	-
- SWAP transactions	100	6,060	4,635	-	10,795	140	-
Instruments presented as held for trading, including:	4,540	9,151	41,304	8,480	63,475	751	846
Instruments listed on the regulated market, including:	413	1,236	412	-	2,061	-	20
- futures	413	1,236	412	-	2,061	-	20
OTC instruments, including:	4,127	7,915	40,892	8,480	61,414	751	826
- futures	2,449	162	7	-	2,618	22	20
- SWAP transactions	1,300	6,873	40,067	8,360	56,600	725	802
- call options (purchase)	189	440	409	60	1,098	4	-
- put options (sales)	189	440	409	60	1,098	-	4
Total interest rate derivatives	**4,640**	**15,211**	**45,939**	**8,480**	**74,270**	**891**	**846**

(in PLN million)

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
Instruments listed on the regulated market, including:	-	-	361	-	361	3	-
- futures	-	-	361	-	361	3	-
OTC instruments, including:	11,428	3,091	1,300	76	15,895	199	125
- futures	1,863	980	311	-	3,154	62	25
- SWAP transactions	8,608	1,006	867	76	10,557	115	77
- call options (purchase)	490	547	61	-	1,098	22	-
- put options (sales)	467	558	61	-	1,086	-	23
Total derivatives linked to currency exchange rates	**11,428**	**3,091**	**1,661**	**76**	**16,256**	**202**	**125**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2015					Assets as at 31 December 2015	Liabilities as at 31 December 2015
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
OTC instruments, including:	6,661	2,620	1,654	68	11,003	170	63
- futures	1,449	573	295	-	2,317	55	8
- SWAP transactions	4,892	1,623	1,235	68	7,818	106	46
- call options (purchase)	160	212	62	-	434	9	-
- put options (sales)	160	212	62	-	434	-	9
Total derivatives linked to currency exchange rates	**6,661**	**2,620**	**1,654**	**68**	**11,003**	**170**	**63**

Security price derivatives	Base amount by maturity as at 31 December 2016					Assets as at 31 December 2016	Liabilities as at 31 December 2016
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
Instruments listed on the regulated market, including:	26	-	-	-	26	-	-
- put options (sales)	26	-	-	-	26	-	-
OTC instruments, including:	695	609	3,712	-	5,016	49	23
- call options (purchase)	351	370	2,083	-	2,804	48	1
- put options (sales)	344	239	1,629	-	2,212	1	22
Total security price derivatives	**721**	**609**	**3,712**	**-**	**5,042**	**49**	**23**

Security price derivatives	Base amount by maturity as at 31 December 2015					Assets as at 31 December 2015	Liabilities as at 31 December 2015
	up to 3 months	over 3 months up to 1 year	over 1 year and up to 5 years	over 5 years	Total		
Instruments listed on the regulated market, including:	1	29	-	-	30	-	-
- futures	1	-	-	-	1	-	-
- put options (sales)	-	29	-	-	29	-	-
OTC instruments, including:	120	736	384	3,178	4,418	52	31
- call options (purchase)	120	385	384	1,589	2,478	52	-
- put options (sales)	-	351	-	1,589	1,940	-	31
Total security price derivatives	**121**	**765**	**384**	**3,178**	**4,448**	**52**	**31**

Risk concentration

	31 December 2016 (PLN million)	31 December 2016 (% of financial assets value)	31 December 2015 (PLN million)	31 December 2015 (% of financial assets value)
Involvement in government bonds issued and guaranteed by the Polish State Treasury and buy-sell-back transactions on these securities	38,315	36.4%	32,997	37.0%
PZU Group's involvement in shares quoted on the Warsaw Stock Exchange (WSE)	3,340	3.2%	4,896	5.5%
Involvement in assets related to one bank (PKO Bank Polski SA - bank deposits, debt securities and shares of that bank)	1,287	1.2%	2,231	2.5%
General involvement in bank assets - bank deposits, debt securities issued by banks, shares of banks and derivative transactions concluded with banks	10,814	10.3%	14,432	16.2%
Involvement in financial assets denominated in Polish zloty	92,815	88.1%	79,907	89.6%

Involvement in debt securities issued by treasuries other than the Polish Treasury

At 31 December 2016

Country	Currency	Acquisition price	Carrying amount	Fair value	Impairment loss
Argentina	USD	70	80	80	-
Brazil	USD	69	79	79	-
Bulgaria	EUR	235	259	261	-
Croatia	EUR/USD	53	57	58	-
Cyprus	EUR	24	25	25	-
Czech Republic	CZK	337	345	345	-
Spain	EUR	40	39	39	-
Indonesia	EUR/USD	40	44	44	-
Lithuania	EUR/USD	459	485	491	-
Latvia	EUR/USD	91	110	110	-
Mexico	EUR/USD	33	33	33	-
Portugal	EUR	58	60	60	-
RSA	EUR/ZAR	68	73	73	-
Romania	EUR/USD/RON	397	422	423	-
Slovakia	EUR	164	162	162	-
Country	**Currency**	**Acquisition price**	**Carrying amount**	**Fair value**	**Impairment loss**

(in PLN million)

Slovenia	EUR	132	138	138	-
Sri Lanka	USD	42	45	45	-
USA	USD	148	149	149	-
Turkey	EUR/USD/TRY	324	345	345	-
Ukraine	EUR/USD/UAH	69 [1)]	68 [1)]	68 [1)]	-
Hungary	EUR/USD/HUF	399	423	424	-
other	EUR/USD/GBP	43	44	44	-
Total		**3,295**	**3,485**	**3,496**	**-**

[1)] For part of these securities, the principal amount is repaid in a fixed amount of UAH 100 every six months (i.e. 10% of the nominal value of the securities). The acquisition price reveals the actual price paid by the company and does not include the repayments of the principal amount.

At 31 December 2015

Country	Currency	Acquisition price	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	40	41	41	-
Croatia	EUR/USD	23	25	25	-
Czech Republic	CZK	106	106	106	-
Spain	EUR	79	76	76	-
Ireland	EUR	14	14	15	-
Iceland	USD	7	10	10	-
Lithuania	EUR/USD	516	549	550	-
Latvia	EUR/USD	106	120	119	-
Germany	EUR	850	841	841	-
Portugal	EUR	80	78	78	-
Romania	EUR/USD/RON	212	229	229	-
Sri Lanka	USD	25	23	23	-
Turkey	USD	99	103	103	-
Ukraine	USD/UAH	31 [1)]	27 [1)]	27 [1)]	-
Hungary	EUR/USD/HUF	289	296	296	-
USA	USD	160	156	156	-
other	EUR/USD	71	72	72	-
Total		**2,708**	**2,766**	**2,767**	**-**

[1)] For part of these securities, the principal amount is repaid in a fixed amount of UAH 100 every six months (i.e. 10% of the nominal value of the securities). The acquisition price reveals the actual price paid by the company and does not include the repayments of the principal amount.

Involvement in debt securities issued by companies and local government authorities

At 31 December 2016 Issuer	Acquisition price	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	1,299	1,320	1,327	-

(in PLN million)

WIG index companies – Fuels	995	1,007	1,009	-
WIG index companies – Chemicals	9	9	9	-
WIG index companies – Energy	315	316	316	-
Domestic banks not listed	20	20	21	-
Foreign banks	74	78	81	1
Local governments	96	102	105	-
WIG index companies – Raw materials	293	254	250	61
National Bank of Poland	2,600	2,600	2,600	-
Other	425	385	385	17
Total	**6,126**	**6,091**	**6,103**	**79**

At 31 December 2015

Issuer	Acquisition price	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	1,844	1,861	1,891	-
WIG index companies – Fuels	1,004	1,009	1,019	-
WIG index companies – Chemicals	6	6	6	-
WIG index companies – Energy	315	316	313	-
Domestic banks not listed	20	20	22	-
Mortgage banks	42	43	43	-
Foreign banks	76	78	81	1
Local governments	96	110	116	-
WIG index companies – Raw materials	246	202	202	43
Other – impaired	453	430	429	12
Total	**4,102**	**4,075**	**4,122**	**56**

8.5.2.1. Interest rate risk

The following table presents sensitivity tests of the financial assets portfolio of PZU Group (except financial assets from banking activity), with respect to financial assets for which PZU Group incurs a risk.

Change in portfolio value	31 December 2016		31 December 2015	
	Effect on net financial result	Effect on revaluation reserve	Effect on net financial result	Effect on revaluation reserve
Market interest rate drop by 100 bps	334	36	601	149
Market interest rate increase by 100 bps	(316)	(34)	(548)	(142)

The above mentioned sensitivity tests include neither effects of changes in interest rates for technical provisions, investment contracts nor Alior Bank's assets and liabilities presented under liabilities. The analysis of effects of a change in technical rate on measurement of insurance contracts is presented in point 8.5.1.

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

- risk of revaluation dates mismatch;
- base risk, e.g. the influence of uneven change in reference indexes with a similar revaluation date on the financial result;
- modeling the accounts with indefinite maturity date and interest rate determined for e.g. current deposits;
- influence of the non-interest items (e.g. capital, fixed assets).

One of the methods of calculating the exposure to interest rate risk is setting the BPV, which determines the estimated change in measurement of a given transaction/item due to a parallel shift of a yield curve by 1 bp. The tables below present the estimation of BPV for Alior Bank.

At 31 December 2016 (in PLN thousand)

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

At 31 December 2015 (in PLN thousand)

Currency	Up to 6 months	6 months–1 year	1 year–3 years	3–5 years	5–10 years	Total
PLN	(192)	17	370	(140)	30	85
EUR	(19)	(16)	(20)	(14)	(6)	(75)
USD	6	11	(6)	(7)	-	4
CHF	-	-	(1)	-	-	(1)
GBP	1	2	-	-	-	3
Other	(1)	(1,6)	-	-	-	(3)
Total	**(205)**	**12**	**343**	**(161)**	**24**	**13**

For the purpose of managing interest rate risk, Alior Bank determines commercial activity that covers securities and derivatives concluded for commercial purposes, and baking activity which encompass other securities, own issue, loans, deposits, credits and derivative transactions aimed at hedging the risk of banking book. In order to estimate the level of interest rate risk, Alior Bank applies the Value at Risk (VaR) model. The below table presents the economic capital to cover interest rate risk measured using this method as at the end of 2016 and 2015 (99% VaR with a 10-day horizon).

(in PLN million)

Book	for the period January - December 2016			for the period January - December 2015		
	Minimum	Average	Maximum	Minimum	Average	Maximum
Banking book	3	11	33	2	7	13
Commercial book	1	1	5	1	2	2
Total	**4**	**12**	**38**	**3**	**9**	**15**

Alior Bank analyzes the scenarios in terms of i.a. the influence of change in interest rates on the future interest result and economic value of the capital. As a part of these scenarios the internal limits are maintained, whose use is measured daily. The use of the limit of change in economic value of capital with the parallel shift of the percentage curve by +/- 200 bps and non-parallel shifts with the scenarios of +/- 100/400 bps (in tenors of 1M/10Y, between them a linear interpolation of the shift) is presented in the following table:

Scenario (1M/10Y)	Change in economic value of capital	
	31 December 2016	31 December 2015
+400 / +100	234	(170)
+100 / +400	31	(76)
+200 / +200	106	(99)
- 200 / - 200	(109)	79
- 100 / - 400	(45)	65
- 400 / - 100	(108)	78

(in PLN million)

8.5.2.2. Currency risk

Currency risk exposure

Assets by currency	31 December 2016								
	PLN	EUR	USD	CZK	GBP	HUF	RON	Other	Total
Assets held to maturity	16,790	507	17	-	-	-	-	32	17,346
Government	16,687	381	17	-	-	-	-	32	17,117
Other	103	126	-	-	-	-	-	-	229
Assets available for sale	10,832	618	176	-	6	-	-	3	11,635
Equity instruments	275	142	-	-	-	-	-	-	417
Debt instruments	10,557	476	176	-	6	-	-	3	11,218
Government	7,344	452	176	-	6	-	-	3	7,981
Other	3,213	24	-	-	-	-	-	-	3,237
Assets measured at fair value – classified as such upon initial recognition	12,282	807	780	175	-	178	153	104	14,479
Equity instruments	2,639	229	35	17	-	10	-	21	2,951
Debt instruments	9,643	578	745	158	-	168	153	83	11,528
Government	9,618	532	742	158	-	168	153	66	11,437
Other	25	46	3	-	-	-	-	17	91
Assets held for trading	5,301	987	540	212	9	94	84	176	7,403
Equity instruments	3,724	211	94	-	-	13	24	-	4,066
Debt instruments	1,241	582	349	188	-	14	58	24	2,456
Government	1,168	582	349	188	-	14	58	24	2,383
Other	73	-	-	-	-	-	-	-	73
Derivative instruments	336	194	97	24	9	67	2	152	881
Hedging derivatives	72	-	-	-	-	-	-	-	72
Loans	47,610	5,192	578	491	202	-	-	292	54,365
Debt instruments	2,421	-	40	-	-	-	-	2	2,463
Government	-	-	-	-	-	-	-	2	2
Other	2,421	-	40	-	-	-	-	-	2,461
Other, including:	45,189	5,192	538	491	202	-	-	290	51,902
- loan receivables from clients	39,531	4,823	232	-	202	-	-	241 [1)]	45,029

(in PLN million)

Assets by currency	31 December 2016								
	PLN	EUR	USD	CZK	GBP	HUF	RON	Other	Total
- buy sell-back transactions	2,880	-	-	-	-	-	-	-	2,880
- term deposits with credit institutions	1,238	231	276	491	-	-	-	49	2,285
- loans	1,540	138	30	-	-	-	-	-	1,708
Receivables	4,454	828	377	-	-	-	-	44	5,703
Cash and cash equivalents	725	1,616	230	131	97	12	1	161 [2)]	2,973
Total assets	**98,066**	**10,555**	**2,698**	**1,009**	**314**	**284**	**238**	**812**	**113,976**

[1)] including PLN 228 million in CHF.

[2)] including i.a. PLN 30 million in CHF, PLN 29 million in SEK, PLN 23 million in CAD, PLN 22 million in NOK.

Assets by currency (restated)	31 December 2015							
	PLN	EUR	USD	CZK	HUF	RON	Other	Total
Assets held to maturity	16,965	399	-	-	-	-	6	17,370
Government	16,863	282	-	-	-	-	6	17,151
Other	102	117	-	-	-	-	-	219
Assets available for sale	6,195	1,495	47	-	-	-	8	7,745
Equity instruments	494	105	-	-	-	-	-	599
Debt instruments	5,701	1,390	47	-	-	-	8	7,146
Government	5,091	1,172	47	-	-	-	8	6,318
Other	610	218	-	-	-	-	-	828
Assets measured at fair value – classified as such upon initial recognition	12,128	506	303	122	79	79	31	13,245
Equity instruments	2,190	127	49	17	1	-	-	2,384
Debt instruments	9,938	379	254	105	75	79	31	10,861
Government	9,910	198	253	105	75	79	11	10,631
Other	28	181	1	-	-	-	20	230
Assets held for trading	5,806	813	347	47	162	16	212	7,403
Equity instruments	3,764	153	117	2	28	14	-	4,078
Debt instruments	1,536	574	160	-	82	-	-	2,352
Government	1,462	574	160	-	82	-	-	2,278
Other	74	-	-	-	-	-	-	74
Derivative instruments	506	86	70	45	52	2	212[1)]	973
Hedging derivatives	140	-	-	-	-	-	-	140

(in PLN million)

Assets by currency (restated)	31 December 2015							
	PLN	EUR	USD	CZK	HUF	RON	Other	Total
Loans	38,101	4,468	221	103	-	-	433	43,326
Debt instruments	2,724	-	2	-	-	-	5	2,731
Government	-	-	2	-	-	-	5	7
Other	2,724	-	-	-	-	-	-	2,724
Other, including:	35,377	4,468	219	103	-	-	428	40,595
- loan receivables from clients	26,431	3,424	79	-	-	-	320 [2]	30,254
- buy sell-back transactions	3,133	-	-	-	-	-	-	3,133
- term deposits with credit institutions	4,035	897	136	103	-	-	108[3]	5,279
- loans	1,778	147	4	-	-	-	-	1,929
Receivables	2,664	412	228	-	-	-	34	3,338
Cash and cash equivalents	1,799	229	118	-	1	1	292	2,440
Total assets	**83,798**	**8,322**	**1,264**	**272**	**239**	**96**	**1,016**	**95,007**

[1] including PLN 156 million in BRL.
[2] including PLN 196 million in CHF and PLN 127 million in GBP.
[3] including i.a. UAH, NOK.

Total liabilities by currency as at 31 December 2016	PLN	EUR	USD	GBP	HUF	CZK	Other	Total
Financial liabilities measured at fair value	2,760	146	192	8	46	25	137	3,314
Derivatives held for trading	314	120	131	8	46	25	137	781
Derivative instruments recognized as cash flow hedges	-	6	-	-	-	-	-	6
Liabilities arising from securities lending	573	20	61	-	-	-	-	654
Unit-linked investment contracts	329	-	-	-	-	-	-	329
Liabilities to participants of consolidated investment funds	1,544	-	-	-	-	-	-	1,544
Financial liabilities measured at amortized cost	45,220	8,154	2,376	547	-	-	419	56,716
Liabilities to banks	435	48	40	-	-	-	-	523
Liabilities to clients	43,603	4,336	2,336	547	-	-	419	51,241
Liabilities arising from own debt instruments (PZU)	-	3,680	-	-	-	-	-	3,680
Subordinated liabilities (Alior Bank)	937	90	-	-	-	-	-	1,027
Liabilities from sell-buy-back transactions	178	-	-	-	-	-	-	178
Investment contracts with guaranteed and fixed terms and conditions	67	-	-	-	-	-	-	67
Other liabilities	4,454	340	149	8	-	-	46	4,997
Total liabilities by currency	**52,434**	**8,640**	**2,717**	**563**	**46**	**25**	**602**	**65,027**

Total liabilities by currency as at 31 December 2015	PLN	EUR	USD	GBP	HUF	Other	Total

Financial liabilities measured at fair value	1,713	55	114	-	39	275	2,196
Derivatives held for trading	509	34	83	-	39	275	940
Liabilities arising from securities lending	155	21	31	-	-	-	207
Unit-linked investment contracts	393	-	-	-	-	-	393
Liabilities to participants of consolidated investment funds	656	-	-	-	-	-	656
Financial liabilities measured at amortized cost	34,599	5,939	1,457	289	-	215	42,499
Liabilities to banks	363	36	191	10	-	-	600
Liabilities to clients	29,573	2,323	1,266	279	-	215	33,656
Liabilities arising from own debt instruments (PZU)	-	3,537	-	-	-	-	3,537
Subordinated liabilities (Alior Bank)	716	43	-	-	-	-	759
Liabilities from sell-buy-back transactions	3,794	-	-	-	-	-	3,794
Investment contracts with guaranteed and fixed terms and conditions	153	-	-	-	-	-	153
Other liabilities	3,245	195	73	3	20	34	3,570
Total liabilities by currency	**39,557**	**6,189**	**1,644**	**292**	**59**	**524**	**48,265**

(in PLN million)

In order to manage currency risk, PZU Group uses derivative instruments as well, which allows for i.a. taking the chosen market exposure in a way more effective than with application of cash instruments. The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group (except financial assets from banking activity).

Change in portfolio value	31 December 2016		31 December 2015	
	Effect on net financial result	Effect on revaluation reserve	Effect on net financial result	Effect on revaluation reserve
20% increase in FX to PLN rates	(143)	103	89	15
20% decrease in FX to PLN rates	143	(103)	(89)	(15)

Financial assets exposed to FX risk include deposit transactions and debt instruments that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at stock exchanges other than WSE, participation units and investment certificates of investment funds, to derivatives denominated in foreign currencies, as well as financial assets of foreign companies included in consolidation.

In order to measure currency risk, Alior Bank applies a Value at Risk model which means a potential loss of value on the foreign exchange currency positions held, simultaneously maintaining the assumed confidence level and position holding period. To determine VaR, Alior Bank applies a variance and covariance method, maintaining a 99% confidence level. The value is determined daily for given areas responsible for risk taking and managing, separately and jointly. As at 31 December 2016, maximum loss on currency portfolio held by the Bank (managed under a business accounting book), determined on the basis of VaR in a 10-day horizon, could amount to PLN 280 thousand (as at 31 December 2015: PLN 106 thousand), at the 99% confidence level assumed.

8.5.2.3. Share price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in items 34.2 and 34.3.

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group (except financial assets from banking activity).

Change in portfolio value	31 December 2016		31 December 2015	
	Effect on net financial result	Effect on revaluation reserve	Effect on net financial result	Effect on revaluation reserve
increase in measurement of listed equity instruments by 20%	595	308	545	207
decrease in measurement of listed equity instruments by 20%	(595)	(308)	(545)	(207)

8.5.2.4. Liquidity risk

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

- shortages of liquid funds in ongoing operations;
- illiquidity of financial instruments;
- structural mismatch between the maturity of assets and liabilities.

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

- short-term liquidity – the balance of funds in the liquidity portfolio is held as not greater than the limit defined. Furthermore, conditional sell-buy-back transactions are used in liquidity management;
- medium-term liquidity – PZU and PZU Życie hold adequate liquid investments portfolios;
- long-term liquidity and risk of structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM), i.e. matching the structure of financial investments which cover technical provisions to the nature of such provisions is applied.

Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavorable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyzes, including among others, a liquidity gap analysis (a mismatch of net cash flows) and an analysis of the distribution of expenditures relating to operating activities.

The policy of liquidity risk management in Alior Bank involves maintaining the liquidity positions so that it is possible to meet payment liabilities at any time, with the available cash in hand, inflows from transactions with a given maturity date or with sale of the assets available for sale, whilst minimizing the costs of maintaining liquidity.

In order to manage Alior Bank's liquidity, ratios and related to them limits of the following types of liquidity are used:

- payment liquidity – the ability to finance assets and meet liabilities on time in the normal course of operations or in other circumstances which can be foreseen, with no need to incur loss. As a part of payment liquidity management, the emphasis is put on the immediate and current (up to 7 days) liquidity analysis;
- short-term liquidity – the ability to meet all cash liabilities if the payment due date falls within 30 subsequent days;
- medium-term liquidity – the ability to meet all liabilities if the maturity date falls within the period of from 1 to 12 months;
- long-term liquidity – monitoring the possibility of meeting all cash liabilities if the payment due date falls within the period of more than 12 months.

As a part of liquidity risk management, the analysis of the long-term maturity profile is made, which largely depends on the assumptions concerning the shaping of future cash flows related to the position of assets and liabilities. The assumptions take into account:

- stability of liabilities with indefinite maturity dates (e.g. current accounts, deposit terminations and renewals, their level of concentration);
- possibility to shorten the maturity date of certain items of assets (e.g. mortgages with an option of earlier repayment);
- possibility to sale an item of assets (liquidity portfolio).

(in PLN million)

Risk exposure

Carrying amount of debt instruments by redemption date as at 31 December 2016	up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	over 5 years	Total
Debt instruments held to maturity	2,796	186	1,150	398	464	12,352	17,346
Government	2,771	127	1,069	391	418	12,341	17,117
Other	25	59	81	7	46	11	229
Debt instruments available for sale	4,051	1,708	1,233	1,485	1,644	1,097	11,218
Government	1,434	1,696	897	1,320	1,639	995	7,981
Other	2,617	12	336	165	5	102	3,237
Instruments measured at fair value – classified as such upon initial recognition	1,305	1,574	855	1,437	2,157	4,200	11,528
Government	1,304	1,554	855	1,436	2,115	4,173	11,437
Other	1	20	-	1	42	27	91
Instruments held for trading	55	330	326	301	295	1,149	2,456
Government	5	307	326	301	295	1,149	2,383
Other	50	23	-	-	-	-	73
Loans	21,012	5,039	3,633	4,498	3,307	16,876	54,365
Debt instruments	714	177	346	27	27	1,172	2,463
Government	1	-	1	-	-	-	2
Other	713	177	345	27	27	1,172	2,461
Other, including:	20,298	4,862	3,287	4,471	3,280	15,704	51,902
- loan receivables from clients	15,306	4,732	3,215	3,221	3,226	15,329	45,029
- buy sell-back transactions	2,880	-	-	-	-	-	2,880
- term deposits with credit institutions	2,082	-	22	129	32	20	2,285
- loans	30	130	50	1,121	22	355	1,708
Total	**29,219**	**8,837**	**7,197**	**8,119**	**7,867**	**35,674**	**96,913**

Carrying amount of debt instruments by redemption date as at 31 December 2015 (restated)	up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	over 5 years	Total
Debt instruments held to maturity	868	2,780	124	1,132	395	12,071	17,370
Government	864	2,756	66	1,052	389	12,024	17,151
Other	4	24	58	80	6	47	219
Debt instruments available for sale	1,023	1,474	1,474	767	864	1,544	7,146
Government	972	1,439	1,396	346	693	1,472	6,318
Other	51	35	78	421	171	72	828
Instruments classified as such upon initial recognition	2,003	1,167	1,033	1,769	1,330	3,559	10,861
Government	1,884	1,164	1,015	1,763	1,312	3,493	10,631
Other	119	3	18	6	18	66	230
Instruments held for trading	23	405	430	444	337	713	2,352
Government	23	354	407	444	337	713	2,278
Other	-	51	23	-	-	-	74
Loans	19,741	3,630	2,422	2,456	2,978	12,099	43,326
Debt instruments	302	718	208	365	50	1,088	2,731
Government	4	1	-	2	-	-	7
Other	298	717	208	363	50	1,088	2,724
Other, including:	19,439	2,912	2,214	2,091	2,928	11,011	40,595
- loan receivables from clients	11,129	2,771	2,048	1,976	1,594	10,736	30,254
- buy sell-back transactions	3,133	-	-	-	-	-	3,133
- term deposits with credit institutions	5,081	-	-	21	126	51	5,279
- loans	96	141	166	94	1,208	224	1,929
Total	**23,658**	**9,456**	**5,483**	**6,568**	**5,904**	**29,986**	**81,055**

(in PLN million)

The table below presents future undiscounted cash flows from assets and liabilities.

Liquidity risk	Up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	5–10 years	over 10 years	Total
Assets	**39,376**	**10,532**	**9,537**	**9,065**	**8,332**	**25,312**	**16,876**	**119,030**
Cash and cash equivalents	2,973	-	-	-	-	-	-	2,973
Receivables	5,429	263	2	1	1	8	-	5,704
Debt instruments	10,185	5,111	4,998	4,534	4,802	15,893	9,118	54,641
Loans	20,789	5,158	4,537	4,530	3,529	9,411	7,758	53,764
Loan receivables from clients	15,579	4,877	4,279	3,351	3,386	9,350	7,617	48,439
Buy-sell-back transactions	2,881	-	-	-	-	-	-	2,881
Term deposits with credit institutions	2,115	-	24	140	141	24	-	2,444
Loans	214	281	234	1,039	2	37	141	1,948
Liabilities	**(55,457)**	**(5,732)**	**(5,948)**	**(1,138)**	**(1,483)**	**(3,958)**	**(20,300)**	**(94,016)**
Technical provisions	(3,703)	(2,392)	(1,363)	(1,116)	(903)	(3,123)	(20,292)	(32,892)
Financial liabilities	(48,492)	(3,335)	(4,582)	(19)	(563)	(833)	(8)	(57,832)
Other liabilities	(3,262)	(5)	(3)	(3)	(17)	(2)	-,	(3,292)
Gap	**(16,081)**	**4,800**	**3,589**	**7,927**	**6,849**	**21,354**	**(3,424)**	**25,014**

8.5.3. Credit risk and concentration risk

Credit risk – a risk of a loss or an unfavorable change in the financial position, resulting from changes in the creditworthiness of issuers of securities, business partners and any debtors.

Credit risk in PZU Group includes:

- credit spread risk – the possibility of incurring losses due to changes in the value of assets, liabilities and financial instruments arising from changes in the level of credit spreads with regard to the time structure instruments issued by the State Treasury or their volatility;
- counterparty default risk – the risk of losses due to a counterparties' and debtors' failure to meet their obligations;
- credit risk in banking activity – credit risk that results from operations in the banking sector which is related mainly with the risk of a borrower or debtor’s failure to meet his/her obligations;
- credit risk in financial insurance – credit risk arising from activity in the financial insurance sector, related primarily to the danger of the customer’s company, the debtor's or the borrower's failure to meet obligations towards a third party; this risk may result from unsuccessful venture implementation or the economic environment's unfavorable impact.

Concentration risk – a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities or a group of related issuers.

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

- bankruptcy of an issuer of financial instruments (e.g. corporate bonds) in which PZU Group invests, or which it trades, e.g. corporate bonds;
- risk of a contractor’s failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities;
- risk of a PZU Group customer’s failure to meet its obligations to a third party, e.g. insurance of monetary receivables, insurance guarantees;
- risk of customer's failure to meet its obligations to PZU Group from contracted credits or loans (in banking activity).

Banking activity

Concentration risk

In monthly cycles, Alior Bank carries out analysis of deposit base, which aims at pointing out potential risk of excessive dependence from the sources of financing characterized by a too low level of diversification. In order to assess the level of concentration, the high concentration ratio is set as a proportion of the value of funds accumulated by the biggest depositaries to the value of deposit base. As at 31 December 2016, the ratio amounted to 1.70% (as at 31 December 2015: 2.02%), which shows lack of concentration.

In order to limit concentration risk, Alior Bank diversifies the structure of deposit base broken down into retail, business, financial, government institution and local government clients by monthly monitoring the share of each group in the whole deposit base.

Managing concentration risk arising from credit activity pertains to the risks resulting among others from:

- exposures to single entities or entities affiliated by capital or management;
- exposures to entities from the same industry, or economic sector, managing the same business or involved in trade in similar goods;
- exposures to entities from the same voivodeship and from individual countries or their groups;
- exposures of entities secured with the same kind of collateral or secured by the same provider of collateral (including the risk arising from collaterals established on treasury securities with similar characteristics);
- exposures in the same currency;
- exposures to entities discussed in Article 71 of the Banking Law;
- data sheet for the product;
- client segment;
- distribution channel;
- special offers and discounts;
- internal concentration.

In order to prevent the adverse events resulting from excessive concentration, the concentration risk is being reduced by setting limits and using concentration norms arising from both external and internal regulations. These include i.a.:

- rules of identifying the areas for concentration risk arising from credit activity;
- process of determining and updating limit levels;
- process of managing the limits, including determining the method of conduct in case of excessing the allowed limit level;
- process of risk concentration monitoring;
- control of the process of risk concentration monitoring.

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

- amount of credit (balance-sheet and off-balance-sheet exposure, without interest, fees and recognition of impairment losses) less securities paid in cash;
- unauthorized overdrafts in current accounts;
- treasury limits less securities paid in cash, including debt securities issued by an entity from a given section.

(in PLN million)

Section name as per Classification of Business Activities in Poland	31 December 2016	31 December 2015
Industrial processing	6,877	4,276
Wholesale and retail, repair of motor vehicles, including motorcycles	5,932	3,433
Construction	5,223	3,708
Real estate activities	4,730	3,380
Production and distribution of electricity, gas, steam and air conditioning	2,115	1,890
Financial and insurance activity	1,865	1,179
Accommodation and food service activities	1,697	1,568
Other	5,724	3,696
Total	**34,163**	**23,130**

In the process of determining and updating concentration limits the following are taken into account:

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

Risk analysis is performed in individual and portfolio terms. The actions taken lead to:

- minimizing credit risk for single credit with the assumed level of return;
- reduction of the total credit risk arising from having a particular credit portfolio.

Under minimizing risk level for a single exposure, each time while granting a credit or other credit product the following are evaluated:

- reliability and creditworthiness, including i.a. detailed analysis of the source for paying the exposure;
- collaterals, including verification of their formal, legal and economic status, with taking into account i.a. loan to value adequacy.

In order to enhance risk control for individual exposures, the clients are regularly monitored and appropriate actions are taken in case of identification of increased risk factors.

In the scope of minimizing credit risk arising from having a particular portfolio:

- concentration limits are determined and controlled;
- early warning signals are monitored;
- credit portfolio is monitored regularly, including the control of relevant credit risk parameters;
- stress tests are carried out.

Risk assessment in the credit process

Credit products are granted in accordance with appropriate crediting methodologies depending on the client segment and product type. Client's creditworthiness is assessed prior to issuing a decision on granting a credit product using a credit process support system and the following tools: scoring or rating; external information (such databases as CBD

(in PLN million)

DZ, CBD BR, BIK, BIG) and Alior Bank's internal databases. Credit products are issued pursuant to applicable operating procedures that indicate appropriate activities to be performed as part of the credit process, as well as entities in charge and tools to be used.

Credit decisions are met in accordance with the currently applicable system of credit decision system (with competence levels adjusted to a risk level of a particular client or transaction).

In order to conduct regular assessment of credit risk taken and to mitigate potential losses on credit exposures, the client's situation is under monitoring during the crediting period. This is done by identifying early warning signals, as well as periodic, individual reviews of credit exposures.

The monitoring process is completed upon the issuance of a recommendation on the strategy of further cooperation with the client.

To minimize credit risk, a collateral is established; the collateral is adjusted to the credit risk incurred and flexible with respect to the situation of the client. The establishment of a collateral does not exempt from the duty to examine the client's creditworthiness.

The aim of a credit collateral is to secure the return of a credit granted along with due interest and costs in the event when the borrower fails to settle its debt in the periods stipulated in a credit agreement, and when restructuring activities fail to bring anticipated effects. Accepted forms of collateral include: guarantees, sureties, bank account freezes, registered pledges, transfers of title, credit insurances, promissory notes, and mortgages. Subjects of a collateral are verified as part of the credit process with respect to the legal possibilities of efficient collateral security; moreover, their market value is assessed, as well as their potential value to be recovered through the enforcement procedure. Due to collaterals it is possible to reduce the amount of impairment losses and provisions, as well as to apply more favorable risk weights to calculate capital requirements.

The value of collaterals considered when determining impairment losses with respect retail and business credits in 2016 amounted to PLN 1,277 million (in 2015: PLN 994 million). In the case of credits for which no impairment was reported in 2016, it amounted to PLN 15,456 million (in 2015: PLN 13,600 million). The impact of non-recognition of collateral value on the level of impairment losses as at 31 December 2016 would amount to PLN 183 million (as at 31 December 2015: PLN 124 million) for impairment losses and PLN 78 million (as at 31 December 2015: PLN 97 million) for IBNR respectively.

Credit scoring and rating

Credit scoring is a tool supporting credit decisions for individual clients and microenterprises, whereas credit rating is applied to the segment and small, medium-sized and large enterprises.

Scoring and rating models are under regular monitoring to check whether they operate correctly. The aim of the process is to conclude whether the applied models are able to properly diversify the risk, and whether estimated risk parameters accurately reflect appropriate risk aspects. Furthermore, as part of functional inspections also the correctness of application of those models in the credit process is verified.

Not overdue financial assets	Risk class	31 December 2016	31 December 2015
Receivables not overdue and without impairment			
Retail segment			
Mortgage loans, cash loans, Credit cards, Overdraft in current and saving account			
(1 – the best class, 6 – the worst class)	1	602	700
	2	604	691
	3	737	808
	4	828	887
	5	48	52
	6	6	7

(in PLN million)

Borrowings, cash loans, Credit cards, Overdraft in current and saving account – standard procedure			
(K1 – the best class, K10 – the worst class)	K1-K2	1,304	769
	K3-K4	2,638	1,880
	K5-K6	3,026	2,262
	K7-K8	895	764
	K9-K10	36	45
Mortgage loans			
(M1 – the best class, M10 – the worst class)	M1-M2	32	25
	M3-M4	648	486
	M5-M6	3,008	2,190
	M7-M8	2,188	1,553
	M9-M10	429	288
No scoring		1,943	2,152
Total retail segment		18,972	15,559
Business segment			
Long-term products, Car loans, Limit in current account			
(1 – the best class, 5 – the worst class)	1	1	8
	2	7	12
	3	3	16
	4	3	6
	5	-	-
Models for microenterprises which carry out abbreviated book-keeping and Models for entities which keep business accounting books, automotive dealers and developers			
(Q01 – the best class, Q25 – the worst class)	Q01-Q05	345	416
	Q06-Q10	3,099	2,887
	Q11-Q15	6,554	3,872
	Q16-Q20	2,938	2,447
	Q21-Q25	661	261
No rating		1,104	687
Total business clients		**14,715**	**10,612**
Receivables not overdue and without impairment		**33,687**	**26,171**
Receivables not overdue and with recognized impairment		**322**	**153**
Retail segment		60	37
Business segment		262	116
Total not overdue receivables from clients		**34,009**	**26,324**

Credit risk monitoring in terms of individual and business clients

Continuous monitoring of timely service of credits and periodic reviews of financial and economic standing of clients and the value of adopted collaterals ensure constant protection of the credit portfolio. This process is applied to all credit exposures of individual and business clients.

Application of forbearance and related practices

The following tools are applied in the process of the client's restructuring:

- prolongation of the duration of the credit, as a result of which monthly principal and interest payments are reduced (the maximum duration is 120 months in the case of unsecured products);
- granting a grace period for the repayment of a full installment or part thereof;
- consolidation of several liabilities towards Alior Bank, including changing a personal overdraft into a credit to be repaid in installments.

In particularly justified situations, other tools may be used.

No limitations with respect to forbearance and related practices have been introduced to the process of restructuring of business clients. Given the specificity of our clients, the most commonly applied tools are:

- agreement on the change in the schedule of mature exposures;
- annex on the reduction of overdraft limit of open-end credits;
- annex on the change in conditions of changing repayment date/installment value or grace period for principal amount/interest.

Monitoring the risk connected to forbearance and related practices

As to the application of tools such as forbearance, the following risks are identified:

- risk of non-repayment or cessation of repayment;
- risk of collaterals loss (movable property in particular) or significant decrease in value thereof;
- bankruptcy risk.

Those risks are mitigated, among others, by conducting a client analysis in terms of its financial possibilities and the history of cooperation with the client, as well as field visits and other sources. Prior to the implementation of forbearance tools it is possible to execute collaterals and, as a consequence, significantly reduce the involvement. When forbearance tools are applied, the aim is to provide maximum collateralization of exposures (through mortgages, sureties and pledges).

Impairment assessment with respect to exposures covered by forbearance practices

In the case of exposures subject to forbearance practices, stricter criteria for identification of evidence of impairment are adopted. Regarding such exposures, besides the standard catalogue of evidence, additional criteria are applied which defined as the occurrence of one of the following situations upon taking a decision whether to grant a facility to a client:

- delay longer than 30 days;
- other impairment evidence;
- analyst assessment of the threat of service timeliness (for individual clients);
- determination that its economic and financial standing is substandard or worse (for business clients).

Impairment for those exposures is determined in the course of an individual scenario analysis based on historical behavior of similar clients and specific features of a given client.

(in PLN million)

As at the date of consolidating Alior Bank Group, the loan receivables of clients towards Alior Bank were measured at fair value. An analysis of exposures covered by forbearance presented in the table below was prepared based on the value credits measured at amortized costs, resulting from the consolidated financial statements of Alior Bank Group.

Credits granted to clients subject to forbearance	31 December 2016	31 December 2015
Retail segment	**184**	**100**
without recognized impairment	66	50
with recognized impairment	294	80
IBNR[1]	(1)	-
impairment losses	(175)	(30)
assessed using the case-by-case method	-	(17)
assessed using the portfolio method	(175)	(13)
Business segment	**616**	**256**
without recognized impairment	189	132
with recognized impairment	636	230
IBNR[1]	(2)	-
impairment losses	(207)	(106)
assessed using the case-by-case method	(17)	(90)
assessed using the portfolio method	(50)	(16)
Total net receivables	**800**	**356**

[1] Impairment loss created for a group of exposures used to cover incurred and not reported losses. It is created for exposures for which individual evidence of impairment loss was not identified and which are grouped with respect to the homogeneity principle concerning risk profile.

Credits granted to clients subject to forbearance	31 December 2016	31 December 2015
With recognized impairment	547	174
including value of collateral	340	125
Without recognized impairment	253	182
including value of collateral	143	98
not overdue	109	85
overdue	144	97
Total net receivables	**800**	**356**

Increased value of credits subject to forbearance in 2016 was to a large extent linked to the acquisition of credit portfolio of Bank BPH in the amount of PLN 308 million.

Investment activity

The principles of credit risk management in PZU Group regarding risk arising from investing activities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Credit and concentration risk limits are set by dedicated Committees.

Limits for banks and other issuers of debt securities are determined based on the level of exposure. The exposure limits are regarded with reference to a single entity or capital group (both credit limits and concentration limits). The use of credit and concentration risk limits is being monitored. Exceeding the limit results in an obligation to prepare and submit a plan to reduce exposure.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type). Ratings are based on a quantitative and qualitative analysis and provide the basis for determining the limits. The ratings are updated for credit quality monitoring purposes.

Credit risk exposure

The following table presents credit risk exposure of assets charged with credit risk in individual Fitch groups (in absence of these, Standard&Poors or Moody`s standards have been applied). The exposure to credit risk relating to repo transactions has been presented as an exposure towards the issuer.

The comparison does not cover loan receivables from clients and insurance receivables. This was due to significant dispersion of the portfolio of assets, resulting, among others, in a significant share of receivables from small enterprises and retail customers who do not have ratings.

(in PLN million)

Assets exposed to credit risk as at 31 December 2016	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		149	5	39,100	2,930	583	1,005	1,239	45,011
- held to maturity	34.1	-	-	16,991	206	49	100	-	17,346
- available for sale	34.2	-	5	10,552	297	11	353	-	11,218
- measured at fair value	34.3	149	-	10,728	1,207	523	138	1,239	13,984
- loans	34.4	-	-	829	1,220	-	414	-	2,463
Term deposits with credit institutions and buy-sell-back transactions	34.4	-	-	4,330	519	-	99	217	5,165
Other loans	34.4	-	-	33	-	76	1,599	-	1,708
Derivative instruments	34.3, 8.5.2	-	10	505	62	-	354	22	953 [1)]
Reinsurers' share in claim provisions	39	-	304	231	1	-	77	-	613
Reinsurance receivables	35	-	25	31	-	-	20	-	76
Total		**149**	**344**	**44,230**	**3,512**	**659**	**3,154**	**1,478**	**53,526**

[1)] Including PLN 72 million of derivative instruments presented as cash flows hedge.

Assets exposed to credit risk as at 31 December 2015	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		997	8	33,389	2,930	1,006	596	1,534	40,460
- held to maturity	34.1	-	-	17,147	138	79	6	-	17,370
- available for sale	34.2	519	-	5,830	385	94	318	-	7,146
- measured at fair value	34.3	478	8	10,208	421	531	33	1,534	13,213
- loans	34.4	-	-	204	1,986	302	239	-	2,731
Term deposits with credit institutions and buy-sell-back transactions	34.4	-	-	4,901	2,914	7	499	91	8,412
Other loans	34.4	-	-	68	-	159	1,702	-	1,929
Derivative instruments	34.3, 8.5.2	-	67	763	47	-	236	-	1,113 [1)]
Reinsurers' share in net claim provisions	39	-	353	310	2	-	93	-	758
Reinsurance receivables	35	-	8	22	1	-	18	-	49
Total		**997**	**436**	**39,453**	**5,894**	**1,172**	**3,144**	**1,625**	**52,721**

[1)] Including PLN 140 million of derivative instruments presented as cash flows hedge.

(in PLN million)

The following table presents credit risk ratios used by PZU Group to calculate credit risk.

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating [1)]
Ratio for 2016	0.72%	0.79%	1.48%	3.89%	13.45%	25.37%
Ratio for 2015	0.74%	0.82%	1.51%	4.06%	13.74%	25.91%

[1)] In the case of exposure to mortgages with no rating, the ratio of 2% was adopted, corresponding to the lowest BBB+ investment rating.

The credit risk, to which PZU Group was exposed as at 31 December 2016 amounted to PLN 1,684 million (PLN 1,822 million as at 31 December 2015; after applying the coefficients of 31 December 2016, the risk would amount to PLN 1,722 million).

Risk related to financial insurance (i.a. credit insurance, surety insurance, guarantees)

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees) results from the possibility that a customer defaults under an agreement with a third party.

As regards risks assumed by the Company, the risk appetite is determined by a relevant committee, which approves the threshold exposure to credit risk by exposure type, portfolio, product lines, local PZU offices as well as individual risks and the capital group.

A control function in terms of risk monitoring which is independent from the sales function is established at three levels:

- level I – individual level – measurement of risk of financial insurance (i.a. underwriting);
- level II – portfolio level – analysis of changes in the exposure value, level of claims related to the portfolio as well as analysis of concentration and exposure to one entity and capital group. Information about the level of risk in the portfolio is transferred and aggregated in order to monitor the overall exposure of PZU Group;
- level III – relevant committee.

Degree of risk exposure

As at 31 December 2016, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,957 million (PLN 3,005 million as at 31 December 2015).

Reinsurance (from the credit risk perspective of the reinsurer) in insurance activity

PZU Group enters into proportional and non-proportional reinsurance contracts with the objective to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk arising from reinsurers' default on their obligations.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources, e.g. S&P, as well as using an internal model. The model divides reinsurers into several groups, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyzes are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried out.

(in PLN million)

The tables below present the credit risk of reinsurers being parties to transactions concluded by the PZU Group entities.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2016	Rating assigned by Standard&Poor's as at 31 December 2016
Reinsurer 1	69	AA-
Reinsurer 2	65	AA-
Reinsurer 3	56	A+
Reinsurer 4	55	A+
Reinsurer 5	53	no rating
Reinsurer 6	39	AA-
Reinsurer 7	38	AA-
Reinsurer 8	37	AA-
Reinsurer 9	30	AA-
Reinsurer 10	25	A+
Other, including: [1]	523	
Holders of investment rating	445	BBB- or higher
Holders of a rating below the investment	78	BB+ or lower or no rating
Total	**990**	

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

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2015	Rating assigned by Standard&Poor's as at 31 December 2015
Reinsurer 4	98	A+
Reinsurer 1	71	AA-
Reinsurer 2	65	AA-
Reinsurer 8	58	AA-
Reinsurer 5	48	no rating
Reinsurer 6	47	AA-
Reinsurer 7	40	AA-
Reinsurer 9	32	AA-
Reinsurer 11	27	AA
Reinsurer 10	23	A+
Other, including: [1]	588	
Holders of investment rating	521	BBB- or higher
Holders of a rating below the investment	67	BB+ or lower or no rating
Total	**1,097**	

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

Counterparty risk related with reinsurance is limited by cooperation of PZU Group with a number or reinsurers that hold credible credit rating.

8.5.4. Operational risk

Operational risk is a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

The objective of operational risk management is to optimize the level of operational risk and operating effectiveness in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective control mechanisms. Operational risk management complies with defined guidelines which take into account external conditions and gathered information on the level of operational risk are reported to relevant internal authorities periodically.

8.5.5. Compliance risk

Compliance risk is a risk of legal sanctions, financial loss or loss of reputation or credibility resulting from failure to comply by the Company's employees or entities acting on its behalf with the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards.

Internal regulations impose a division of duties regarding ongoing and system management of non-compliance risk.

System management consists in particular of formulating solutions ensuring that the rules of compliance risk management are followed, monitoring compliance risk management and promoting and monitoring compliance of internal standards and approved compliance procedures.

Ongoing compliance risk management consists in identification, assessment and measurement, as well as ensuring satisfaction of regulatory requirements.

9. Capital management

On 3 October 2016, the Supervisory Board of PZU adopted a resolution concerning the approval of the capital and dividend policy of PZU Group for the years 2016–2020 ("Policy").

The introduction of the Policy is the effect of the 1 January 2016 implementation of the Act on Insurance and Reinsurance Activity implementing Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance ("Solvency II"), as amended, and the end of the "Capital Structure and Dividend Policy of PZU Group for the years 2013–2015", which was updated in May of 2014.

According to the Policy, PZU Group is aiming towards:

- effective capital management through optimization of capital use from the perspective of PZU Group;
- maximizing the rate of return for the shareholders of the parent entity, especially with ensuring a steady safety level and maintaining capital funds for strategic development through acquisitions;
- ensuring enough funds to cover PZU Group's liabilities towards the clients.

The capital management policy bases on the following rules:

- managing the PZU Group's capital (including surplus capital) at the level of PZU as the parent entity;
- maintaining target solvency ratios at the level of 200% for PZU Group, PZU, and PZU Życie (in accordance with Solvency II);
- maintaining PZU Group's leverage ratio at a level no higher than 0.35;
- providing funds for development and acquisitions in the upcoming years;
- no share issues by PZU in the period of the Policy being in effect.

PZU's and PZU Group's dividend policy assumes that:

- dividend amount proposed by the Management Board of PZU for the given financial year is established based on the consolidated financial result of PZU Group assigned to the parent entity, where:
  - no more than 20% will raise the profits detained for purposes of organic development, innovation, and realization of growth initiatives (supplementary capital);
  - no more than 50% is subject to payout in scope of annual dividend;
  - the remaining part will be paid out as annual dividend or raise detained profits (supplementary capital) if the given year includes realization of important expenditures associated with performance of the premises in PZU Group's Strategy, specifically concerning mergers and acquisition transactions;

with reservation of the points below;

- according to the plans of the Management Board of PZU and own evaluation of risks and solvency of the parent entity, the own funds of the parent entity and PZU Group following declaration or payout of the dividend remain at a level ensuring fulfillment of the conditions specified in the capital policy;
- recommendations of the authority supervising the dividend are taken into consideration for dividend determination.

External capital requirements

On 1 January 2016, a new act on insurance activity implementing Solvency II to the Polish legal system came into force. Under the new regulations, the calculation of capital requirements is based on market risk, underwriting (insurance) risk, counterparty risk, catastrophic risk, and operational risk. Assets, liabilities and, consequently, own funds covering the capital requirement are measured at fair value.

Pursuant to Article 412. 1 and Article 489. 3 point 1 of the Act on Insurance Activity, PZU Group is bound to draw up and publish annual financial statements concerning solvency and financial standing at the group level prepared in accordance with the rules of Solvency II. For the report for the year 2016, the date of publication falls no later than 26 weeks from the end of the year, i.e. until 1 July 2017. Pursuant to Article 290. 1 of the Act on Insurance Activity, the financial statements concerning solvency and financial standing of insurance company is subject to examination performed by the entity authorized to audit financial statements.

Regardless the above, some PZU Group entities are obliged to follow their own capital requirements, imposed by relevant legal regulations.

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt securities and loans

Fair values of financial instruments are determined based on quotations available to the public on an active market or valuations published by an authorized information service; when no such quotations are available, using the valuation models applied to public quotations of financial instruments, interest rates and stock market indexes.

PZU Group makes internal verification of valuations published by an authorized information channel and compares them with available valuations from different sources, basing on observable market data.

The fair value of debt instruments for which an active market does not exist, and for loans, is measured using the discounted cash flow method. Discount factors are determined based on the yield curve of government bonds shifted by the credit spread. It is calculated as at the date of the latest issue in relation to the issue price, and leads to a parallel shift of the yield curve of government bonds at a fixed rate over its entire length, or as the difference between the yields of listed debt securities of issuers with a similar rating and operating in similar industries, and the yields of government bonds (in case of securities denominated in EUR, these account for bonds issued by the German government), multiplied by a ratio determined as at the date of the issue, which includes in the discount curve a specific risk of a given issuer.

10.1.2. Equity assets

Fair value of equity assets is determined based on quotations available to the public on an active market.

Fair values of participation units and investment certificates in investment funds are specified as per the values of the participation units and investment certificates in investment funds published by the investment fund companies. The valuation reflects the PZU Group’s share in net assets of these funds.

10.1.3. Derivative instruments

For derivatives listed on an active market, fair value shall be the closing price on the trading date.

The fair value of derivatives not listed on an active market including forwards and interest rate swaps (IRS) is determined using the discounted cash flows and the information used in the measurement of the instruments comes from the money market. Interest rate yield curves associated with a particular type of financial instrument and currency, constructed on the basis of available market data are used to discount cash flows.

The fair value of options related to the structured deposits is determined based on measurements of the option writers, considering verification of the measurements carried out by PZU Group based on internal measurement models.

10.1.4. Loan receivables from clients

In order to determine a change in fair value of receivables from clients (excluding overdrafts), the margins generated by newly granted credits (in the month preceding the data of preparation of consolidated financial statements) are compared with the margins from entire credit portfolio. When the margins from newly granted credits are higher than the ones generated by the current portfolio, the fair value of credit portfolio is lower than its carrying amount.

Credit receivables from clients have been classified in full to level III of fair value hierarchy due to the application of a valuation model with significant non-observed input data, i.e. current margins generated by newly granted credits.

10.1.5. Property measured at fair value

Depending on the characteristics of a given real property, its fair value is measured using the comparable, income or residual method.

With the comparable method available, development land and some smaller and less valuable buildings are measured (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by a reference to the observable market prices, including adjustment ratios. The adjustment ratios take into account such factors as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighborhood (including location against attractive facilities), investment opportunities, physical conditions, ownership, etc.

The income method consists in estimating the fair value of real property based on discounted cash flows. The calculation takes into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies, etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city center, availability, exposure etc.), as well as local market parameters (such as the capitalization rate, rental fee, maintenance costs).

The residual method is used to determine the market value if the real property is to undergo construction work. The fair value of the real property is defined as the difference in value of the real property after the execution of construction works and average values of the cost of these works, including the revenues attained by similar properties on the market.

Fair value measurement of real property is performed by licensed appraisers. Approval of each measurement is additionally preceded by an inspection carried out by employees of the PZU Group entities aimed at eliminating potential errors and inconsistencies. Any doubts are clarified as they arise.

Investment property is measured in accordance with the following rules:

- properties held by investment funds being PZU's subsidiaries – measured on a semi-annual basis – as at the last day of each year half and the financial year;
- investment property held by the PZU Group entities – the most valuable items are measured if indications of a possible significant change in value occur (most frequently, on an annual basis). Regardless of the value, each investment property is measured at least once every 5 years;

- properties held for sale – measured before being actively exposed on the market.

10.1.6. Financial liabilities

10.1.6.1. Liabilities from deposits

Since deposits are collected as part of current activity on a daily basis, their conditions are similar to the current market conditions of identical transactions, and their time to maturity is short. Therefore, it is assumed that the fair value of liabilities to clients with maturity of up to 1 year does not differ significantly from their carrying amount.

10.1.6.2. Liabilities arising from the issue of own debt instruments and subordinated liabilities

Fair value of liabilities arising from the issue of own debt instruments, including subordinated liabilities, is determined as the current value of expected payments based on the current percentage curves and the current credit spread.

10.1.6.3. Liabilities arising from unit-linked investment contracts

Liabilities arising from unit-linked investment contracts are measured in accordance with fair value of the assets which cover liabilities of a capital fund associated with a given investment contract.

10.1.6.4. Liabilities to participants of consolidated investment funds

Liabilities to participants of consolidated investment funds are measured at the fair value of the assets of the investment fund (based on the share in the net assets of the investment fund).

10.1.6.5. Liabilities arising from securities lending

Liabilities arising from securities lending for short sell purpose are measured at the fair value of lended securities.

10.2 Fair value hierarchy

On the basis of the input data used for fair value measurement, individual assets and liabilities for which the fair value is presented, are classified to the following levels:

- Level I – financial assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
  - listed liquid debt instruments;
  - listed shares;
  - listed derivatives.
- Level II – assets and liabilities measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market. The level includes:
  - listed debt instruments measured based on the valuations published by an authorized information service;
  - derivatives, i.a. FX Swap, FX Forward, IRS, CIRS, FRA;
  - investment fund units;

- investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
- liabilities to participants of consolidated investment funds;
- unit-linked investment contracts.

▪ Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). The level includes:

- unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector), measured with the models based on the discounted cash flows;
- investment property or property held for sale, measured using the income method or the residual method;
- loan receivables from clients and liabilities to clients from deposits;
- options embedded in deposit certificates issued by the PZU Group companies and options concluded on the interbank market to hedge embedded options positions.

In a situation where input data classified into different levels of fair value hierarchy is used for measurement of asset or liability elements, the measured component is attributed to the lowest level, from which the input data originate, which have a significant impact on the overall measurement.

The valuation of the asset or liability elements within Level III is substantially influenced by unobservable input data.

Assets measured	Unobservable data	Characteristics	Impact on valuation
Non-liquid bonds and loans	Credit spreads	Spreads are observed on all bonds (their series) or loans of the same issuer or issuer having similar characteristics. These spreads are observed on the date of the issue of the new bond series, dates of the conclusion of the new loan agreements and dates of the market transactions whose subjects are the receivables arising from mentioned bonds and loans.	Negative correlation.
Investment property	Capitalization rate	Capitalization rate is determined on the basis of the analysis of return rates achieved in transactions for similar property.	Negative correlation.
	Construction costs	The value of construction costs is determined based on market cost of construction less costs incurred as at the measurement date.	Positive correlation.
	Monthly rental rate for $1m^2$ of appropriate type of space or for one parking lot	Rental rates are observed for similar property, with similar quality, localization and size of the rented surface.	Positive correlation.

(in PLN million)

Assets and liabilities measured at fair value	31 December 2016				31 December 2015 (restated)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Financial assets available for sale	8,113	2,887	614	11,635	6,689	386	670	7,745
Equity instruments	132	264	-	417	196	386	17	599
Debt instruments	7,981	2,623	614	11,218	6,493	-	653	7,146
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	12,555	1,882	42	14,479	13,107	84	54	13,245
Equity instruments	2,837	97	17	2,951	2,274	84	26	2,384
Debt instruments	9,718	1,785	25	11,528	10,833	-	28	10,861
Financial instruments measured at fair value through profit or loss – held for trading	1,881	5,333	188	7,403	3,341	3,933	129	7,403
Equity instruments	744	3,321	-	4,066	1,053	3,025	-	4,078
Debt instruments	1,119	1,202	135	2,456	2,278	-	74	2,352
Derivative instruments	18	810	53	881	10	908	55	973
Hedging derivatives	-	72	-	72	-	140	-	140
Investment property	-	149	1,589	1,738	-	117	1,055	1,172
Assets held for sale	-	49	1,081	1,130	-	90	1,413	1,503
Liabilities								
Derivative instruments	31	730	26	787	36	869	35	940
Liabilities to participants of consolidated investment funds	31	1544	26	1544	-	656	-	656
Unit-linked investment contracts	-	329	-	329	-	393	-	393
Liabilities arising from securities lending	654	-	-	654	207	-	-	207

Level III investment property	31 December 2016	31 December 2015
Office property	902	551
Warehouse property	681	487
Other	6	17
Level III investment property, total	**1,589**	**1,055**

Fair value of assets and liabilities for which it is only disclosed	31 December 2016				31 December 2015 (restated)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured using the equity method – EMC	-	37	-	37	-	55	-	55
Financial assets held to maturity	15,531	15	3,520	19,066	17,069	-	2,751	19,820
Loans								
Debt instruments	1	1	2,467	2,469	-	7	2,761	2,768
Loan receivables from clients	-	-	44,897	44,897	-	-	30,254	30,254
Loans	-	-	1,705	1,705	-	-	1,927	1,927
Liabilities								
Liabilities to banks	-	399	124	523	-	476	125	601
Liabilities to clients	-	-	51,364	51,364	-	-	33,665	33,665
Liabilities arising from the issue of bank securities	-	-	2,784	2,784	-	-	2,301	2,301
Liabilities arising from the issue of own debt instruments	-	-	3,761	3,761	-	-	3,573	3,573
Subordinated liabilities	-	-	1,027	1,027	-	-	759	759
Investment contracts with guaranteed and fixed terms and conditions	-	67	-	67	-	153	-	153

(in PLN million)

Property classified to Level III of the fair value

No.	Name of the property	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Type of space	Ranges of unobservable data As at 31 December 2016	Ranges of unobservable data As at 31 December 2015
The property valuated with income approach using the investment method and the income stream discounting technique						
1.	Office complex, Wrocław	282	274	Office	EUR 11.25 – 14.50	EUR 14.25 – 15.50
2.	Warehouse park, Bielany Wrocławskie	233	215	Office Warehouse Construction costs	EUR 7.00 – 9.00 EUR 3.00 – 3.60 1)	EUR 7.50 – 9.00 EUR 2.50 – 4.20 1)
3.	Office building, Warsaw	165	155	Office Parking lot	EUR 12.00 – 25.00 EUR 50.00 – 200.00	EUR 11.70 – 14.10 EUR 70.00 – 150.00
4.	Office complex, Gdańsk	165	2)	Office	EUR 13.00 – 15.00	EUR 12.00 – 16.00
5.	Office building, Warsaw	130	2)	Office Parking lot	EUR 6.33 – 15.00 EUR 65.00 – 90.00	EUR 12.00 – 34.00 EUR 65.00 – 150.00
6.	Warehouse park under construction, Komorniki	116	119	Office Warehouse Construction costs	EUR 7.00 – 9.00 EUR 3.00 – 3.50 1)	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1)
7.	Office building, Warsaw	111	114	Office Parking lot	EUR 8.00 – 16.50 EUR 50.00 – 80.00	EUR 10.09 – 12.91 EUR 35.20 – 84.48
8.	Office building under construction, Wrocław	34	7	Office Construction costs	EUR 11.00 – 14.50 1)	EUR 11.00 – 15.50 1)
The property valuated with mixed approach with the use of the residual method						
9.	Warehouse park under construction, Sosnowiec Pieńki	217	116	Office Warehouse Construction costs	EUR 7.00 – 9.00 EUR 2.89 – 3.60 1)	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1)
10.	Warehouse park under construction, Sosnowiec	116	37	Office Warehouse Construction costs	EUR 7.00 – 9.00 EUR 2.89 – 3.60 1)	EUR 7.50 – 9.00 EUR 2.90 – 4.30 1)
11.	Other	20	18	n/a	n/a	n/a
	Total	**1,589**	**1,055**			

1) The value of outstanding construction costs to be incurred was determined based on market construction costs.
1) As at 31 December 2015, property was classified as assets held for sale. At that date their value amounted to PLN 165 million (Gdansk) and PLN 134 million (Warsaw).

10.3 Reclassifications between levels of fair value hierarchy

In the event of a change in the method of measuring assets or liabilities arising e.g. from losing (or gaining) the availability of quotations observed in an active market, such assets or liabilities are moved between Levels I and II.

Elements of assets or liabilities are moved between Levels II and III (respectively between Levels III and II) when:

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

Transfers between levels of the fair value hierarchy are made at the end of each quarter, according to the value at that date.

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

- on 30 June 2016, a part of financial assets, whose fair value as at the date of reclassification amounted to PLN 2,600 million, was moved from Level I to Level II. Information concerning the reasons for reclassification has been presented in point 10.5.
- On 30 September 2016, one bond classified to the portfolio of assets available for sale in having the carrying amount of PLN 46 million was reclassified from Level III to Level I in relation to emergence of quotations on the active market.

In 2015, no significant movements between Levels I and II (and, respectively, between Levels II and I) occurred.

(in PLN million)

10.4 Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy

Change in assets and liabilities categorized within Level III of the fair value hierarchy in the year ended 31 December 2016	Debt financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon initial recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment property	Financial liabilities – Derivatives
	Capital	Debt	Capital	Debt	Debt	Derivative instruments		
Opening balance	**17**	**653**	**26**	**28**	**74**	**55**	**1,055**	**35**
Acquisition / item opening	4	37	27	-	64	19	139	10
Reclassification from own property and property held for sale	-	-	-	-	-	-	300	-
Profits or losses disclosed in profit or loss as:	-	(14)	(36)	(3)	2	3	98	-
- net investment income	-	-	-	-	-	-	-	-
- net result on realization and impairment losses on investments	-	(8)	-	-	-	-	-	-
- net change in the fair value of assets and liabilities measured at fair value	-	(6)	(36)	(3)	2	3	98	-
Profits or losses recognized in other comprehensive income	-	-	-	-	-	-	-	2
Sale and settlements	-	(62)	-	-	(5)	(24)	(3)	(21)
Closing balance	**21**	**614**	**17**	**25**	**135**	**53**	**1,589**	**26**

(in PLN million)

Change in assets and liabilities categorized within Level III of the fair value hierarchy in the year ended 31 December 2015	Debt financial assets available for sale		Financial assets measured at fair value through profit or loss – classified as such upon initial recognition		Financial assets measured at fair value through profit or loss – held for trading		Investment property	Financial liabilities – Derivatives
	Capital	Debt	Capital	Debt	Debt	Derivative instruments		
Opening balance	**3**	**269**	**-**	**29**	**100**	**24**	**2,075**	**-**
Acquisition / item opening	-	42	25	-	-	10	269	-
Reclassification from own property	-	-	-	-	-	-	3	-
Profits or losses disclosed in profit or loss as:	-	-	1	(1)	(2)	(5)	86	-
- net result on realization and impairment losses on investments	-	-	-	-	-	2	-	-
- net change in the fair value of assets and liabilities measured at fair value	-	-	1	(1)	(2)	(7)	86	-
Profits or losses recognized in other comprehensive income	-	(7)	-	-	-	-	-	-
Reclassification to own property	-	-	-	-	-	-	(30)	-
Reclassification to assets held for sale	-	-	-	-	-	-	(1,348)	-
Sale and settlements	-	-	-	-	(28)	(8)	-	-
Change in group composition	14	349	-	-	-	34	-	35
Closing balance	**17**	**653**	**26**	**28**	**74**	**55**	**1,055**	**35**

(in PLN million)

10.5 Changes in fair value measurement of financial instruments measured at fair value

In order to provide more accurate determination of the fair value, since 30 June 2016, in the case of a part of the financial assets (mainly debt financial instruments listed on foreign markets), the fair value is determined based on the valuations published by an authorized information service, and not based on the quotations from the interbank market, as it used to be. PZU Group decided that due to the low interbank market activity, the change of the measurement source allows for including in the fair value measurement the broader scope of information about transactions and offers from a large number of markets on which the given financial instrument is quoted. Assets for which measurement source had changed were reclassified from Level I to II of the fair value.

As a result of the reassessment of the models applied to determine the fair value with the use of the discounted cash flows, PZU Group decided to qualify the instruments measured with these models to Level III of the fair value, and not to Level II, as it used to be. The data for the compared periods have been appropriately restated.

In 2015, there were no changes introduced to the method of determining fair value of financial instruments measured at fair value, the value of which would be significant from the condensed interim consolidated financial statements perspective.

11. Gross written premiums

Gross written premiums	1 January - 31 December 2016	1 January 31 December 2015
Gross written premium – non-life insurance	12,182	10,362
In direct insurance	11,981	10,036
In indirect insurance	201	326
Gross written premium – life insurance	8,037	7,997
Individual insurance premiums	1,260	1,307
Individually continued insurance premiums	1,946	1,935
Group insurance premiums	4,831	4,755
Total gross written premiums	**20,219**	**18,359**

In 2016 and 2015, the PZU Group entities did not conclude inward reinsurance agreements for life insurance.

Gross written premiums in direct property and casualty insurance (by classes specified in section II of the appendix to the Act on insurance Activity)	1 January - 31 December 2016	1 January – 31 December 2015
Accident and sickness insurance (group 1 and 2)	577	615
Motor third-party liability insurance (group 10)	4,467	3,278
Other motor insurance (group 3)	3,272	2,627
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	85	61
Insurance against fire and other damage to property (groups 8, 9)	2,380	2,318
Third-party liability insurance (groups 11, 12, 13)	753	751
Credit insurance and suretyship (groups 14, 15)	66	91
Assistance (group 18)	381	314
Legal protection (group 17)	7	4
Other (group 16)	194	303
Total	**12,182**	**10,362**

(in PLN million)

12. Revenue from commissions and fees

Revenue from commissions and fees	**1 January – 31 December 2016**	**1 January – 31 December 2015**
Banking activity	590	-
Brokerage commissions	75	-
Handling payment and credit cards	114	-
Remunerations for insurance policy sale intermediation	75	-
Credits and loans	64	-
Handling bank accounts	114	-
Bank transfers	42	-
Cash-desk operations	27	-
Purchased receivables	9	-
Guarantees, letters of credit, collections, stand-by arrangements	14	-
Other commissions	56	-
Pension insurance	110	119
Commission on handling fees	5	5
Asset management fee for open pension fund	93	101
Other	12	13
Fees from unit-linked investment contract	6	9
Revenue and payments received from funds and investment fund management companies	102	115
Total revenue from commissions and fees	**808**	**243**

(in PLN million)

13. Net investment income

Net investment income	1 January– 31 December 2016	1 January– 31 December 2015
Interest income, including:	3,869	1,350
Bank loans	2,416	-
Financial assets available for sale	182	50
Financial assets held to maturity	811	932
Loans	300	364
Purchased receivables	12	-
Hedging derivatives	105	-
Receivables	21	1
Cash and cash equivalents	22	3
Dividend income, including:	66	58
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition	44	35
Financial assets held for trading	19	22
Financial assets available for sale	3	1
Income from investment property	241	212
Foreign exchange differences	98	78
Other, including:	(109)	(127)
Costs of investment activities	(29)	(31)
Investment property maintenance costs	(93)	(123)
Other	13	27
Total net investment income	**4,165**	**1,571**

(in PLN million)

14. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	1 January–31 December 2016	1 January–31 December 2015
Net result on realization of investments	**(93)**	**(155)**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	(21)	87
Equity instruments	90	13
Debt instruments	(111)	74
Financial assets held for trading, including:	(131)	(143)
Equity instruments	88	(71)
Debt instruments	(8)	(30)
Derivative instruments	(211)	(42)
Financial assets available for sale, including:	76	10
Equity instruments	6	(26)
Debt instruments	70	36
Financial assets held to maturity, including:	-	(2)
Financial assets held to maturity	-	(2)
Loans	24	8
Receivables, including insurance receivables	(55)	(51)
Investment property	13	7
Result on the sale of UAB DK PZU Lietuva	-	165
Effect of consolidation of Alior Bank	-	(236)
Other	1	-
Impairment losses	**(842)**	**(68)**
Financial assets available for sale, including:	(8)	-
Equity instruments	(1)	-
Debt instruments	(7)	-
Loans, including:	(801)	(52)
Debt instruments	(33)	(33)
Loan receivables from clients	(768)	-
Term deposits with credit institutions	-	(1)
Loans	-	(18)
Receivables	(9)	1
Cash and cash equivalents	-	(1)
Entities measured using the equity method – EMC	(14) [1)]	(16) [1)]
Goodwill of acquired SKOKs	(10)	-
Net result on realization and impairment losses on investments	**(935)**	**(223)**

[1)] Additional information concerning the EMC measurement and test for impairment has been presented in point 33.

(in PLN million)

15. Net change in the fair value of assets and liabilities measured at fair value

Net change in the fair value of assets and liabilities measured at fair value	1 January– 31 December 2016	1 January– 31 December 2015
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	94	299
Equity instruments	(123)	203
Debt instruments	250	101
Valuation of liabilities to participants of consolidated investment	(26)	(8)
Unit-linked investment contracts	(7)	3
Financial instruments held for trading, including:	165	16
Equity instruments	(47)	(25)
Debt instruments	69	47
Derivative instruments	143	(6)
Investment property	84	76
Other	14	-
Total net change in the fair value of assets and liabilities measured at fair value	**357**	**391**

16. Other operating income

Other operating income	1 January – 31 December 2016	1 January – 31 December 2015
Profit from bargain acquisition of Bank BPH	508	
Revenue from managing third party assets	16	-
Reimbursement of costs of claims redress proceeding	21	
Commission on claims representative services	7	6
Release of provisions	25	24
Released impairment losses on non-financial assets	7	-
Release of provisions for employee benefits	-	33
Reinsurers' commissions and share in reinsurers' profit	19	14
Revenues from sale of products, goods, and services by non-insurance companies	419	410
Revenues from direct claims handling regarding policies concluded with other insurance companies	215	189
Interest from overdue receivables in direct insurance and outward reinsurance	13	45
Other	138	82
Total other operating income	**1,388**	**803**

17. Insurance claims, benefits, and change in technical provisions

Insurance claims, benefits, and change in technical provisions	1 January– 31 December 2016	1 January– 31 December 2015
Insurance claims, benefits, and change in technical provisions	**12,888**	**12,283**
In non-life insurance	7,108	6,417
- claims and benefits in non-life insurance	6,574	5,468
- change in technical provisions in non-life insurance	(165)	304
- claims settlement expenses in non-life insurance	699	645
In life insurance	5,780	5,866
- claims and benefits in life insurance	5,843	5,455

(in PLN million)

- change in technical provisions in life insurance	(195)	272
- benefits handling expenses in life insurance	132	139
Reinsurers' share in claims, benefits, and change in technical provisions	**(156)**	**(426)**
In non-life insurance	(156)	(426)
Total net insurance claims and benefits	**12,732**	**11,857**

Claims and benefits handling expenses, by type	**1 January– 31 December 2016**	**1 January– 31 December 2015**
Consumption of materials and energy	12	14
External services	223	233
Taxes and charges	23	27
Employee expenses	343	319
Depreciation of property, plant and equipment	14	13
Amortization of intangible assets	24	19
Other, including:	192	159
- awarded costs, penal interest and penalties awarded in cases over claims	169	147
- other	23	12
Total claims and benefits handling expenses	**831**	**784**

18. Costs of commissions and fees

Costs of commissions and fees	**1 January– 31 December 2016**	**1 January– 31 December 2015**
Brokerage commissions	4	-
Costs of card and ATM transactions, including costs of the cards issued	84	-
Bank products insurance	22	-
Commissions for providing ATMs	22	-
Commissions for agreements on performing certain actions	12	-
Costs of compensations and bonuses for bank clients	24	-
Commissions paid to agents in banking activity	29	-
Assistance services for bank clients	4	-
Costs of gaining bank clients	6	-
Other commissions	78	-
Total costs of commissions and fees	**285**	**-**

(in PLN million)

19. Interest expense

Interest expense	1 January– 31 December 2016	1 January– 31 December 2015
Term deposits	398	-
Current deposits	48	-
Hedging derivatives	88	-
Sell-buy-back transactions	48	68
Own debt instruments issued	176	38
Contracted bank loans	4	4
Investment contracts with guaranteed and fixed terms and conditions	2	6
Other	9	1
Total interest expense	**773**	**117**

20. Acquisition costs

Acquisition costs, by type	1 January– 31 December 2016	1 January– 31 December 2015
Consumption of materials and energy	27	29
External services	95	121
Taxes and charges	6	6
Employee expenses	509	511
Depreciation of property, plant and equipment	23	18
Amortization of intangible assets	34	30
Other, including:	2,167	2,103
- commissions from direct activity	2,000	1,821
- advertisement	68	90
- commissions from indirect activity	92	185
- other	7	7
Change in deferred acquisition costs	(248)	(442)
Total acquisition expenses	**2,613**	**2,376**

(in PLN million)

21. Administrative expenses

Administrative expenses by type	1 January–31 December 2016	1 January–31 December 2015
Consumption of materials and energy	171	56
External services	414	316
Taxes and charges	37	30
Employee expenses	1,501	805
Depreciation of property, plant and equipment	116	53
Amortization of intangible assets	88	46
Remuneration of people handling group insurance with companies	210	212
Other, including:	306	140
- advertisement	121	79
- other	185	61
Total administrative expenses	**2,843**	**1,658**

In insurance activity, administrative expenses also include, among others, costs of insurance activity, not classified as acquisition expenses, related to premium collection, management of the portfolio of insurance contracts, reinsurance contracts and other related to the operations of the insurance companies of PZU Group as specified in their By-laws.

22. Employee expenses

Employee expenses	1 January–31 December 2016	1 January–31 December 2015
Wages and salaries	2,117	1,398
Defined contributions plans, including:	407	304
- overheads	342	237
- third pillar pension plans, including costs of premiums to PPE incurred in the period	65	67
Other	131	70
Total employee expenses	**2,655**	**1,772**

As at 31 December 2016 PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, considered defined contribution plans. Due to these plans, the employer paid additional 7% of the gross salary.

Employee expenses are disclosed under "Claims, benefits and change in technical provisions", "Acquisition costs", "Administrative expenses" and "Other operating expenses" of the consolidated statement of profit or loss.

23. Other operating expenses

Other operating expenses	1 January–31 December 2016	1 January–31 December 2015
Costs of core business of companies carrying out neither insurance nor banking activity	506	432
Amortization of intangible assets acquired in business combinations	90	161
Costs from direct claims handling regarding claims on policies concluded with other insurance companies	223	193
Expenses due to prevention activities	77	92
Impairment of non-financial assets	84	2
Compulsory payments to the insurance and bank market authorities	77	68
IT expenses	69	-
Insurance Guarantee Fund	60	42
Bank Guarantee Fund	87	-
Creation of provisions	229 [1)]	21
Donations	46	2

Payment to National Headquarters of the State Fire Service and Volunteer Fire Service Association consideration	30	32
Financial Institutions Tax	395	-
Other	155	165
Total other operating expenses	**2,128**	**1,222**

[1)] including PLN 200 million from restructuring provision established by Alior Bank

(in PLN million)

24. Income tax

Income tax	1 January– 31 December 2016	1 January– 31 December 2015
Gross profit (consolidated)	3,031	2,944
CIT rate (or range of rates) for the country of the registered office of the parent entity (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country for the registered office of the parent entity	576	559
Differences between the income tax calculated above and the income tax recognized in the statement of profit or loss:	38	42
- financial institutions tax	75	
- profit from bargain acquisition of the core Business of Bank BPH	(96)	
- reserves for credit receivables in the part not covered by deferred tax	26	
- valuation of financial assets	(66)	8
- valuation of investment property	1	3
- created/reversed impairment losses on receivables not classified as tax deductible expenses	37	12
- other created/reversed provisions and impairment losses on assets, not classified as tax deductible expenses	19	45
- prudential fee to BGF	5	
- differences from different tax rates	(3)	(3)
- tax on insurance activities in Ukraine	4	4
- depreciation	1	2
- other tax increases, cancellations, exemptions, deductions and reductions	35	(29)
Income tax recognized in the statement of profit or loss	**614**	**601**

Total current and deferred tax	1 January– 31 December 2016	1 January– 31 December 2015
1. Recognized in the statement of profit or loss, including:	**614**	**601**
- current tax	787	483
- deferred tax	(173)	118
2. Recognized in other comprehensive income, including:	**(39)**	**3**
- current tax	-	-
- deferred tax	(39)	3

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes. The current regulations contain ambiguities which result in a difference in opinions regarding their legal interpretation, both among various State authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duty or foreign currency settlements) may be controlled by authorities authorized to impose high penalties, and additional liability amounts recognized during are to be paid with high interest. As a result, the level of tax risk in Poland, the Baltic states and Ukraine exceeds that of countries with more developed tax systems. In Poland tax returns are subject to control over a period of five years. Consequently, the amounts presented in consolidated financial statements may change at a later date, after they have been finally assessed by tax authorities.

(in PLN million)

25. Earnings per share

Earnings per share	1 January– 31 December 2016	1 January– 31 December 2015
Net profit attributable to owners of the parent entity	1,947	2,343
Basic and diluted weighted average number of ordinary shares in issue	863,510,930	863,523,000
Number of own shares	863,523,000	863,523,000
Weighted average number of shares issued (held by consolidated entities)	12,070	-
Basic and diluted profit (loss) per ordinary share (in PLN)	2.25	2.71

There were neither transactions, nor events resulting in the dilution of profit per one share in both 2016 and 2015.

26. Income tax presented in other comprehensive income

Income tax relating to components of other comprehensive income	1 January– 31 December 2016	1 January– 31 December 2015
Other comprehensive income before tax	(164)	8
Income tax	39	(3)
Measurement of available-for-sale financial instruments	41	(1)
Property reclassified from property, plant and equipment to investment property	(2)	(2)
Other comprehensive income, net	**(125)**	**5**

27. Goodwill

Goodwill	31 December 2016	31 December 2015 (restated)
Alior Bank	746	746
Lietuvos Draudimas AB	489 [1)]	359
Non-life insurance mass-client segment (Link4)	221	221
Lietuvos Draudimas AB branch in Estonia	n/a [1)]	112
AAS Balta	40	39
Health care companies	82	50
Other	5	5
Total goodwill	**1,583**	**1,532**

[1)] Covers the company's value from the acquisition of Lietuvos Draudimas in Estonia.

(in PLN million)

Changes in goodwill	**1 January–31 December 2016**	**1 January–31 December 2015** (restated)
Gross value of goodwill – opening balance	1,537	776
Changes in the period:	61	761
acquisition of Alior Bank	-	746 [1)]
- acquisition of other entities	42	20
- sale of PZU Lietuva	-	(3)
- foreign exchange differences	19	(2)
Gross value of goodwill – closing balance	1,598	1,537
Impairment losses – opening balance	(5)	(7)
Changes in impairment losses due to foreign exchange differences	(10)	2
- impairment losses concerning SKOK	(10)	
- foreign exchange differences	-	2
Impairment losses – closing balance	(15)	(5)
Net value of goodwill – closing balance	**1,583**	**1,532**

[1)] Information about the acquisition of Alior Bank is presented in point 2.4.1.2

Impairment test

Impairment test is the comparison of carrying amounts (including goodwill) and recoverable amounts of cash-generating units (CGUs) to which goodwill has been allocated. In case of foreign companies and Polish non-insurance companies, particular entities are considered CGUs. During the final purchase price allocation, the goodwill resulting from the acquisition of Link4 was fully allocated to the mass insurance segment in non-life insurance, which – due to the integration of Link4's business with PZU as part of realization of the two brands strategy assuming synergy resulting from mass client portfolio management and sale of additional insurance products – is the smallest CGU to which goodwill can be assigned. An impairment test regarding goodwill was prepared as at 31 December 2016. Starting in 2016, the branch in Estonia is subject to tests for impairment together with Lietuvos Draudimas AB due to the integration of activity of both entities concerning management of investments, risk, and assistance as well as the lack of internal monitoring of the branch's capital position.

For the purposes of the test, the carrying amount of the mass insurance segment was determined on the basis of net asset allocation of PZU Group. The assets were allocated in the same proportion as the one between the hypothetical capital solvency requirement, which may be assigned to the mass insurance segment, and total capital solvency requirement.

The recoverable amount of individual CGUs was determined based on value in use, using the discounted cash flow method based on the most up-to-date, approved by PZU Group financial projections not exceeding 5 years, which have been presented in the table below. The discount rates used for the test of insurance companies and Alior Bank were determined based on the level of the cost of equity. In the case of medical companies, the weighted average cost of capital (WACC) was used. The cost of equity was determined according to the CAMP model. In addition, in justified cases, the adjustments regarding size premium were made. Risk-free rates have been determined based on the yield of 10-year government bonds offered by the country where the CGU has it registered seat; the beta ratio has been based on ratios of similar listed entities. Market premiums amounted to 5.5% (in 2015: 5.5%). In the case of insurance companies and Alior Bank, the projected cash flows include the need to maintain an adequate level of own funds. Terminal growth rates were determined taking into consideration long-term development prospects concerning the expected growth of the market in which a given entity operates. In the case of insurance entities operating in the Baltic states, an adjustment regarding the expected growth of insurance penetration rate (share of insurance premiums in GDP) amounting to 0.2–0.3 p.p. was taken into consideration. In the remaining cases, growth indicators do not exceed long-term prospects of GDP development of a given country in nominal terms.

CGU	31 December 2016			31 December 2015		
	Discount rate	Terminal growth rate	Financial projections horizon	Discount rate	Terminal growth rate	Financial projections horizon
Lietuvos Draudimas AB	5.3%[1]	3.7%[1]	5 years[1]	5.6%	3.7%	4 years
Lietuvos Draudimas AB branch in Estonia	n/a	n/a	n/a	5.8%	3.5%	4 years
AAS Balta	5.7%	3.8%	5 years	5.8%	3.8%	4 years
Mass insurance segment [2]	7.8%	2.5%	4 years	7.5%	2.5%	5 years
Alior Bank	9.6%	3.5%	4 years	8.9%	3.0%	5 years
Health care companies	6.6%	2.0–3.0%	4 years	6.6–9.1%	2.0–3.0%	4-5 years

[1] Including goodwill resulting from the acquisition of Lietuvos Draudimas in Estonia.
[2] Including goodwill resulting from the acquisition of Link4.

As a result of the test, there was no reason for impairment losses recognition. The table below shows the surplus of the recoverable amounts over the carrying amounts and the maximum discount rates and minimum terminal growth rate, at the level of which the carrying amount of a CGU equals its recoverable amount.

CGU	31 December 2016			31 December 2015		
	Surplus (PLN million)	Maximum discount rate	Minimum terminal growth rate	Surplus (PLN million)	Maximum discount rate	Minimum terminal growth rate
Lietuvos Draudimas AB	2,044[1]	8.6%[1]	(4.0%)[1]	693	7.5%	(0.6%)
Lietuvos Draudimas AB branch in Estonia	n/a	n/a	n/a	109	8.3%	(13.9%)
AAS Balta	978	16.2%	(62.5%)	728	14.4%	(23.4%)
Mass insurance segment	1,895 [2]	11.3%	(42.8%)	6,265 [2]	28.2%	n/a [3]
Alior Bank	2,210 [4]	11.1%	1.6%	1,383 [4]	10.4%	1.5%
Health care companies	87	6.9–12.5%	(5.2%)–2.7%	53	8.2–13.9%	(5.6%)–2.3%

[1] Including goodwill resultingfrom the acquisition of Lietuvos Draudimas in Estonia. Data as at 31 December 2015 have been transformed accordingly. The growth of the recoverable amount surplus exceeding the book value results mainly from growth in financial forecasts included in PZU Group's financial plans, period of growth of entity's cash flows being longer up to 5 years, and a drop in discount rate.
[2] Surplus of the recoverable amount of mass insurance segment exceeding its carrying amount including goodwill allocated to this segment and resulting from Link4 acquisition. A drop in the surplus results mainly from decrease in financial forecasts included in PZU Group's financial plans, period of growth of entity's cash flows being longer up to 5 years, and a drop in discount rate.
[3] The value of discounted cash flows in the forecast period exceeds the carrying amount assigned to the mass insurance segment, hence the value of the terminal growth rate after the forecast period has not been presented.
[4] Surplus of the recoverable amount of CGU exceeding carrying amount (100% of net consolidated assets of Alior Bank, including the Core Business of Bank BPH) including goodwill allocated to CGU pertaining exclusively to Alior Bank.

(in PLN million)

28. Intangible assets

Changes in intangible assets (by group) in the year ended 31 December 2016

	Software, licenses, and similar items	Trademarks	Customer relations	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	1,269	269	573	175	60	2,346
Changes (due to):	240	5	50	2	8	305
- purchased and manufactured by use of own means	38	-	-	215	2	255
- change in group composition	46	-	42	2	-	90
- reclassifications	177	-	-	(179)	2	-
- sale and liquidation	(22)	-	-	(19)	-	(41)
- foreign exchange differences and other	1	5	8	(17)	4	1
Gross value of tangible assets – closing balance	**1,509**	**274**	**623**	**177**	**68**	**2,651**
Accumulated depreciation – opening balance	(656)	-	(248)	-	(38)	(942)
Changes (due to):	(116)	-	(97)	-	(11)	(224)
- depreciation for the period	(137)	-	(90)	-	(9)	(236)
- sale and liquidation	22	-	-	-	-	22
- foreign exchange differences and other	(1)	-	(7)	-	(2)	(10)
Accumulated depreciation – closing balance	**(772)**	**-**	**(345)**	**-**	**(49)**	**(1,166)**
Impairment losses – opening balance	(8)	-	-	(3)	-	(11)
Changes in other operating expenses	(9)	-	-	-	(6)	(15)
Other changes	**1**	-	-	3	-	4
Impairment losses – closing balance	**(16)**	**-**	**-**	**-**	**(6)**	**(22)**
Net value of intangible assets – closing balance	**721**	**274**	**278**	**177**	**13**	**1,463**

(in PLN million)

Changes in intangible assets (by group) in the year ended 31 December 2015

	Software, licenses, and similar items	Trademarks	Customer relations	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	943	169	**373**	**188**	**57**	1,730
Changes (due to):	326	100	200	(13)	3	616
purchased and manufactured by use of own means	7	-	-	191	2	200
- change in group composition	220	100	200	59	3	582
- reclassifications	144	-	-	(146)	2	-
- sale and liquidation	(45)	-	-	(117)	(11)	(173)
- foreign exchange differences and other	-	-	-	-	7	7
Gross value of tangible assets – closing balance	**1,269**	**269**	**573**	**175**	**60**	**2,346**
Accumulated depreciation – opening balance	(576)	-	(89)	-	(34)	(699)
Changes (due to):	(80)	-	(159)	-	(4)	(243)
- depreciation for the period	(89)	-	(159)	-	(10)	(258)
- sale and liquidation	9	-	-	-	8	17
- foreign exchange differences and other	-	-	-	-	(2)	(2)
Accumulated depreciation – closing balance	**(656)**	**-**	**(248)**	**-**	**(38)**	**(942)**
Impairment losses – opening balance	(42)	-	-	(119)	-	(161)
Assets charged to impairment losses	34[1)]	-	-	116[1)]	-	150
Impairment losses – closing balance	**(8)**	**-**	**-**	**(3)**	**-**	**(11)**
Net value of intangible assets – closing balance	**605**	**269**	**325**	**172**	**22**	**1,393**

[1)] The item indicates, among others, derecognition of total expenditures incurred for the GraphTalk project in the amount of PLN 116 million and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34 million and charged to impairment losses reported in the preceding periods.

Trademarks, being intangible assets with indefinite period of use, were tested for impairment, including goodwill, and there was no reason found for impairment losses recognition.

Amortization of intangible assets by position in the consolidated statement of profit or loss	**1 January – 31 December 2016**	**1 January – 31 December 2015**
Insurance claims, benefits, and change in technical provisions	24	19
Acquisition costs	34	30
Administrative expenses	88	46
Other operating expenses [1)]	90	163
Total depreciation	**236**	**258**

[1)] Including amortization of intangible assets acquired in company takeover transactions amounting to PLN 90 million (2015: PLN 159 million).

(in PLN million)

29. Other assets

Other assets	31 December 2016	31 December 2015
Reinsurance settlements	403	339
Estimated subrogations and salvages	161	115
IT expenses	41	31
Accrued receivables from direct claims handling	49	42
Inventories	114	125
Other assets	103	161
Total other assets	**871**	**813**

Other assets	31 December 2016	31 December 2015
Short-term	789	732
Long-term	82	81
Total other assets	**871**	**813**

30. Deferred acquisition costs

Deferred acquisition costs	31 December 2016	31 December 2015
Short-term	1,320	1,065
Long-term	87	89
Total deferred acquisition costs	**1,407**	**1,154**

Change in deferred acquisition costs	1 January– 31 December 2016	1 January– 31 December 2015
Carrying amount – opening balance	1,154	712
Non-life insurance	1,078	644
Life insurance	76	68
Acquisition costs for future periods	1,455	1,170
Depreciation for the period recognized in the statement of profit or loss	(1,206)	(726)
Foreign exchange differences	4	(2)
Carrying amount – closing balance	**1,407**	**1,154**
Non-life insurance	**1,323**	1,078
Life insurance	**84**	76

(in PLN million)

31. Tangible fixed assets

Changes in tangible assets (by group) in the year ended 31 December 2016

	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Property	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	583	156	61	1,167	311	2,278
Changes (due to):	105	(3)	4	128	68	302
- purchased and manufactured by use of own means	34	5	65	2	29	135
- change in group composition	117	-	3	117	37	274
- sale and liquidation	(85)	(18)	-	(1)	(6)	(110)
- reclassification to assets held for sale according to IFRS 5	-	-	-	4	-	4
- reclassification to investment property	-	-	-	(11)	-	(11)
- reclassifications	36	10	(65)	14	5	-
- foreign exchange differences and other	3	-	1	3	3	10
Gross value of tangible assets – closing balance	**688**	**153**	**65**	**1,295**	**379**	**2,580**
Accumulated depreciation – opening balance	(385)	(56)	-	(369)	(117)	(927)
Changes (due to):	7	(9)	-	(30)	(52)	(84)
- depreciation for the period	(68)	(22)	-	(31)	(55)	(176)
- sale and liquidation	79	15	-	-	-	94
- reclassification to and from investment property	-	-	-	4	-	4
- foreign exchange differences and other	(4)	(2)	-	(3)	3	(6)
Accumulated depreciation – closing balance	**(378)**	**(65)**	**-**	**(399)**	**(169)**	**(1,011)**
Impairment losses – opening balance	(3)	-	-	(44)	(4)	(51)
Changes recognized in the financial profit/loss, including:	2	-	(5)	(50)	2	(51)
- other operating expenses	1	-	(5)	(52)	2	(54)
- other operating income	1	-	-	2	-	3
Other changes:	-	-	-	(1)	1	-
- reclassification to investment property	-	-	-	(1)	-	(1)
- other	-	-	-	-	1	1
Impairment losses – closing balance	**(1)**	**-**	**(5)**	**(95)**	**(1)**	**(102)**
Net value of tangible assets – closing balance	**309**	**88**	**60**	**801**	**209**	**1,467**

(in PLN million)

Changes in tangible assets (by group) in the year ended 31 December 2015

	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Property	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	537	144	43	1,130	175	2,029
Changes (due to):	46	12	18	37	136	249
- purchased and manufactured by use of own means	28	4	94	2	14	142
- change in group composition	81	1	13	22	123	240
- reclassification to investment property	-	-	-	75	-	75
- sale and liquidation	(93)	(24)	-	(1)	(12)	(130)
- reclassification to and from investment property	-	-	-	4	-	4
- reclassification	25	31	(78)	12	10	
- foreign exchange differences and other	5		(8)	(2)	1	(4)
Gross value of tangible assets – closing balance	**583**	**156**	**61**	**1,167**	**311**	**2,278**
Accumulated depreciation – opening balance	(438)	(55)	-	(368)	(107)	(968)
Changes (due to):	53	(1)	-	(1)	(10)	41
- depreciation for the period	(34)	(20)		(28)	(19)	(101)
- sale and liquidation	93	19		-	11	123
- reclassification to investment property	-	-	-	24	-	24
- foreign exchange differences and other	(6)	-	-	3	(2)	(5)
Accumulated depreciation – closing balance	**(385)**	**(56)**	**-**	**(369)**	**(117)**	**(927)**
Impairment losses – opening balance	(3)	-	-	50	(4)	(57)
Reclassification to investment property	-	-		6	-	6
Impairment losses – closing balance	**(3)**	**-**	**-**	**(44)**	**(4)**	**(51)**
Net value of tangible assets – closing balance	**195**	**100**	**61**	**754**	**190**	**1,300**

"Reclassifications to investment property" include the same values as explained in point 1.

(in PLN million)

32. Investment property

Investment property	31 December 2016	31 December 2015
Own land	145	117
Land perpetual usufruct right	27	24
Buildings and structures	1,565	1,030
Cooperative ownership of premises	1	1
Total investment property	**1,738**	**1,172**

Change in investment property	1 January–31 December 2016	1 January–31 December 2015
Carrying amount – opening balance	1,172	2,236
Increases (due to):	446	308
- purchase	138	270
- reclassifications to real property used for internal purposes	13	36
- reclassification from assets held for sale according to IFRS 5	295	2
Decreases (due to):	(13)	(1,460)
- sale and liquidation	(4)	(3)
- reclassifications to real property used for internal purposes	(5)	(75)
- reclassification to assets held for sale according to IFRS 5	(4)	(1,382)
Profit (loss) on fair value remeasurements	133	89
- recognized in profit or loss	126	80
- recognized in other comprehensive income	7	9
Foreign exchange differences	-	(1)
Net book value – closing balance	**1,738**	**1,172**

The item "Land perpetual usufruct" contains a right to use a land for up to 99 years. Land perpetual usufruct can be subject of sale.

"Reclassifications from property for internal purposes" present the carrying amount of property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date.

The fair value of investment property results from valuations by independent appraisers conducted mainly in 2016.

(in PLN million)

33. Entities measured using the equity method

Associates	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA	
Nature of the relationship between PZU and the entity	Associate – non-strategic		Associate – non-strategic	
Seat of the entity	Wrocław	Wrocław	Tychy	Tychy
Share in the entity's capital	28.31%	28.31%	30.00%	30.00%
Share in the entity's votes	25.44%	25.44%	30.00%	30.00%
Valuation method in consolidated financial statements	Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS	
Carrying amount of the involvement in the entity	37	53	-	1
Fair value of the interest in the entity	37	55	None – unlisted entity	None – unlisted entity
Dividends received from the entity	-	-	-	-
Basic financial information				
Assets, including:	285	252	4	3
Short-term assets, including:	46	54	3	2
Cash and cash equivalents	11	16	3	2
Long-term assets	239	198	1	1
Equity	142	153	2	2
Liabilities, including:	143	99	2	1
Short-term liabilities, including:	76	56	2	1
Short-term financial liabilities	28	21	-	-
Long-term liabilities, including:	67	43	-	-
Long-term financial liabilities	50	20	-	-
Revenue from core operations	278	258	2	2
Depreciation and amortization	14	13	-	-
Interest income	-	-	-	-
Interest expense	3	2	-	-
Income tax	2	1	-	-
Total net comprehensive income, including:	(11)	(4)	-	-
Profit/loss, including:	(11)	(4)	-	-
Profit (loss) from continued operations	(11)	(4)	-	-
Profit (loss) from discontinued operations	-	-	-	-
Other comprehensive income	-	-	-	-

There are no restrictions (e.g. due to lending arrangements, regulatory requirements or contracts) concerning the possibility of transfer of funds by associates in the form of cash dividends.

(in PLN million)

Reconciliation of the EMC measurement	1 January–31 December 2016	1 January–31 December 2015
Net assets of EMC	142	153
Non-controlling interest in EMC financial statements	(8)	(8)
Goodwill in financial statements of EMC as at the moment of achieving a considerable inflow	(1)	(1)
Net assets of EMC measured using equity method valuation	133	144
PZU Group's share in EMC capitals	38	40
Goodwill	29	29
Impairment loss	(30)	(16)
Carrying amount	**37**	**53**

Impairment test

Impairment test was conducted as at 31 December 2016 and showed the necessity to recognize impairment loss on the value of EMC shares amounting to PLN 14 million.

The recoverable amount was determined based on fair value.

(in PLN million)

34. Financial assets

On 1 January 2015, due to a change in the purpose of use of the assets, certain assets that used to be recognized as assets available for sale were reclassified to assets held to maturity. The carrying value of assets at the time of the reclassification amounted to PLN 84 million. Carrying amount as at 31 December 2016 amounted to PLN 80 million.

Apart from the reclassification mentioned above, no other financial instruments were reclassified from portfolios carried at fair value to those carried at cost or amortized cost in the years 2015–2016.

34.1 Financial assets held to maturity

Financial assets held to maturity	31 December 2016	31 December 2015
Debt instruments	17,346	17,370
Government	17,117	17,151
National	16,741	16,897
Fixed interest	15,793	15,666
Floating rate	948	1,231
Foreign	376	254
Fixed interest	376	254
Other	229	219
Listed on the regulated market	103	96
Fixed interest	103	96
Not listed on the regulated market	126	123
Floating rate	126	123
Total financial assets held to maturity	**17,346**	**17,370**

(in PLN million)

34.2 Financial assets available for sale

Financial assets available for sale	31 December 2016	31 December 2015
Equity instruments	417	599
Listed on the regulated market	132	196
Not listed on the regulated market[1]	285	403
Debt instruments	11,218	7,146
Government	7,981	6,318
National	7,592	5,341
Fixed interest	5,144	3,683
Floating rate	2,448	1,658
Foreign	389	977
Fixed interest	389	977
Other	3,237	828
Listed on the regulated market	37	246
Fixed interest	37	203
Floating rate	-	43
Not listed on the regulated market	3,200	582
Fixed interest	2,611	
Floating rate	589	582
Total financial instruments available for sale	**11,635**	**7,745**

[1] Due to low unit values of exposures, the equity instruments not listed on the regulated markets with total carrying amount of PLN 21 million (as at 31 December 2015: PLN 17 million) were measured in line with historical cost, including optional impairment losses.
[2] Including NBP money bills in the amount of PLN 2,600 million.

(in PLN million)

34.3 Financial assets measured at fair value through profit or loss

As at 31 December 2016 and 31 December 2015, the PZU Group entities were not parties to any contracts with embedded derivatives, the nature and the relating risks of which would not be closely connected with the host contract.

Financial assets measured at fair value through profit or loss	31 December 2016	31 December 2015
Assets classified as such upon initial recognition	**14,479**	**13,245**
Equity instruments	2,951	2,384
Listed on the regulated market	2,830	2,274
Not listed on the regulated market	121	110
Debt instruments	11,528	10,861
Government	11,437	10,631
National	9,686	9,918
Fixed interest	8,257	8,514
Floating rate	1,429	1,404
Foreign	1,751	713
Fixed interest	1,674	533
Floating rate	77	180
Other	91	230
Listed on the regulated market	91	230
Fixed interest	91	230
Assets held for trading	**7,403**	**7,403**
Equity instruments	4,066	4,078
Listed on the regulated market	744	1,053
Not listed on the regulated market	3,322	3,025
Debt instruments	2,456	2,352
Government	2,383	2,278
National	1,416	1,463
Fixed interest	1,384	1,414
Floating rate	32	49
Foreign	967	815
Fixed interest	967	815
Other	73	74
Not listed on the regulated market	73	74
Floating rate	73	74
Derivative instruments	881	973
Total financial assets measured at fair value through profit or loss	**21,882**	**20,648**

Additional information on involvement in derivatives and related risks are presented in 8.5.2.

(in PLN million)

34.4 Loans

Loans	31 December 2016	31 December 2015
Debt instruments	**2,463**	**2,731**
Government	2	7
Foreign	2	7
Fixed interest	2	7
Other	2,461	2,724
Not listed on the regulated market	2,461	2,724
Floating rate	2,461	2,724
Other, including:	**51,902**	**40,595**
Loan receivables from clients	45,029	30,254
Buy-sell-back transactions	2,880	3,133
Term deposits with credit institutions	2,285 [1)]	5,279
Loans and receivables[2)]	1,708	1,929
Total loans and receivables	**54,365**	**43,326**

[1)] For more than 86% of term deposits with credit institutions the maturity date fell before the end of March 2017.
[2)] Over 100% of loans and receivables are loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral.

Loan receivables from clients	31 December 2016	31 December 2015
Retail segment	**25,309**	**16,924**
Operating credits	294	168
Consumer credits	13,865	8,571
Consumer Finance credits	1,222	710
Credits to acquire securities	125	117
Credit card	970	226
House purchase credits	7,969	6,232
Other mortgage loans	813	872
Other receivables	51	28
Business segment	**19,720**	**13,330**
Operating credits	10,838	7,407
Car loans	132	70
Investment credits	7,493	5,455
Purchased receivables (factoring)	794	376
Other receivables	463	22
Total loan receivables from clients	**45,029**	**30,254**

(in PLN million)

34.5 Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2016	Opening balance	Recognition in the statement of profit or loss	Release in the statement of profit or loss	Derecognition (sale, write-off, etc.)	Closing balance
Financial assets held to maturity	1	-	-	-	1
Debt instruments	1	-	-	-	1
Financial assets available for sale	**46**	**8**	**-**	**-**	**54**
Equity instruments	46	1	-	-	47
Debt instruments	-	7	-	-	7
Loans	**77**	**1,896**	**(1,095)**	**(23)**	**855**
Debt instruments	43	33	-	(5)	71
Loan receivables from clients	-	1,863	(1,095)	-	768
Term deposits with credit institutions	1	-	-	-	1
Loans	33	-	-	(18)	15
Receivables	**588**	**63**	**(54)**	**(6)**	**591**
Receivables from direct insurance	562	56	(50)	(6)	562
Reinsurance receivables	6	5	(3)	-	8
Other receivables	20	2	(1)	-	21
Reinsurers' share in technical provisions	**11**	**25**	**(27)**	**-**	**9**
Cash and cash equivalents	**1**	**-**	**-**	**-**	**1**
Total	**724**	**1,992**	**(1,176)**	**(29)**	**1,511**

(in PLN million)

Changes in impairment losses on financial assets in the year ended 31 December 2015	Opening balance	Recognition in the statement of profit or loss	Release in the statement of profit or loss	Derecognition (sale, write-off, etc.)	Foreign exchange differences and other changes	Closing balance
Financial assets held to maturity	**1**	**-**	**-**	**-**	**-**	**1**
Debt instruments	1	-	-	-	-	1
Financial assets available for sale	**158**	**-**	**-**	**(112)**	**-**	**46**
Equity instruments	158	-	-	(112)	-	46
Loans	**25**	**52**	**-**	**-**	**-**	**77**
Debt instruments	10	33	-	-	-	43
Term deposits with credit institutions	-	1	-	-	-	1
Loans	15	18	-	-	-	33
Receivables	**594**	**110**	**(111)**	**(4)**	**(1)**	**588**
Receivables from direct insurance	566	105	(106)	(2)	(1)	562
Reinsurance receivables	5	3	(4)	-	2	6
Other receivables	23	2	(1)	(2)	(2)	20
Reinsurers' share in technical provisions	**17**	**9**	**(15)**	**-**	**-**	**11**
Cash and cash equivalents	**-**	**1**	**-**	**-**	**-**	**1**
Total	**795**	**172**	**(126)**	**(116)**	**(1)**	**724**

As at the date of consolidating Alior Bank Group, loan receivables of clients towards Alior Bank were measured at fair value, and thus as at 31 December 2015 no impairment losses on those assets were recognized.

(in PLN million)

Credit quality of financial assets as at 31 December 2016	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount (net)	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**-**	**17,346**	**-**	**-**	**-**	**17,346**	**1**	**-**	**17,347**
Available-for-sale financial instruments	**73**	**11,145**	**-**	**-**	**-**	**11,218**	7	-	**11,225**
Loans	**443**	**49,377**	**3,034**	**170**	**1,341**	**54,365**	**344**	**511**	**55,220**
Debt instruments	121	2,342	-	-	-	2,463	71	-	2,534
Loan receivables from clients	322	40,162	3,034	170	1,341	45,029	257	511	45,797
Buy-sell-back transactions	-	2,880	-	-	-	2,880	-	-	2,880
Term deposits with credit institutions	-	2,285	-	-	-	2,285	1	-	2,286
Loans	-	1,708	-	-	-	1,708	15	-	1,723
Receivables	**926**	**4,415**	**211**	**45**	**106**	**5,703**	**65**	**526**	**6,294**
Receivables from direct insurance	828	1,085	197	39	84	2,233	36	526	2,795
Reinsurance receivables	1	53	9	5	8	76	8	-	84
Other receivables	97	3,277	5	1	14	3,394	21	-	3,415
Reinsurers' share in technical provisions	**49**	**941**	**-**	**-**	**-**	**990**	**9**	**-**	**999**
Total	**1,491**	**83,224**	**3,245**	**215**	**1,447**	**89,622**	**426**	**1,037**	**91,085**

(in PLN million)

Credit quality of financial assets as at 31 December 2015 (restated)	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount (net)	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	**6**	**17,364**	**-**	**-**	**-**	**17,370**	**1**	**-**	**17,371**
Available-for-sale financial instruments	**-**	**7,146**	**-**	**-**	**-**	**7,146**	**-**	**-**	**7,146**
Loans	**276**	**38,466**	**3,487**	**203**	**894**	**43,326**	**77**	**-**	**43,403**
Debt instruments	151	2,580	-	-	-	2,731	43	-	2,774
Loan receivables from clients[1)]	-	25,670	3,487	203	894	30,254	-	-	30,254
Buy-sell-back transactions	-	3,133	-	-	-	3,133	-	-	3,133
Term deposits with credit institutions	9	5,270	-	-	-	5,279	1	-	5,280
Loans	116	1,813	-	-	-	1,929	33	-	1,962
Receivables	**813**	**2,146**	**181**	**52**	**146**	**3,338**	**58**	**530**	**3,926**
Receivables from direct insurance	692	747	156	49	124	1,768	32	530	2,330
Reinsurance receivables	-	21	21	1	6	49	6	-	55
Other receivables	121	1,378	4	2	16	1,521	20	-	1,541
Reinsurers' share in technical provisions	**62**	**1,035**	**-**	**-**	**-**	**1,097**	**11**	**-**	**1,108**
Total	**1,157**	**66,157**	**3,668**	**255**	**1,040**	**72,277**	**147**	**530**	**72,954**

[1)] As at the date of consolidating Alior Bank Group, loan receivables of clients towards Alior Bank were measured at fair value, and thus as at 31 December 2015 no impairment losses on those assets were recognized
.

(in PLN million)

35. Receivables

Receivables – carrying amount	31 December 2016	31 December 2015
Receivables from direct insurance, including:	2,233	1,768
- receivables from policyholders	1,996	1,564
- receivables from insurance intermediaries	213	179
- other receivables	24	25
Reinsurance receivables	76	49
Other receivables	3,394	1,521
- corporate income tax receivables	16	67
- receivables from the State Budget, other than due to corporate income tax	55	45
- receivables from debit cards settlements	202	149
- receivables relating to prevention activities	47	62
- receivables from claims representative services	11	10
- receivables from security transactions and collateral deposits[1)]	2,401	783
- trade receivables	148	270
- receivables from immediate decommissioning charged to policies concluded with other insurance companies	40	40
- receivables from banks	12	26
- receivables from the settlement of acquisition of the Core Business of Bank BPH	145	-
- other	317	69
Total receivables	**5,703**	**3,338**

[1)] the item presents mainly the receivables related to transactions regarding financial instruments which have been concluded but unsettled.

Both as at 31 December 2016 and at 31 December 2015, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the policy of creating write-downs for impairment losses.

Receivables – by contractual maturity	31 December 2016	31 December 2015
Up to 1 year [1)]	5,427	3,188
Over 1 year and up to 5 years Including receivables overdue.	267	149
Over 5 years	9	1
Total receivables – by contractual maturity	5,703	**3,338**

[1)] Including receivables overdue.

36. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	31 December 2016	31 December 2015
Balances with the central bank [1)]	17	1,560 [1)]
Cash in hand and at bank	2,956 [2)]	880
Total cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	**2,973**	**2,440**

[1)] The amount concerns the obligatory reserve maintained by Alior Bank at the current account in NBP, whose amount is in compliance with the Monetary Policy Council decisions. The drop occurring between the periods presented results from allocating a part of the funds on term deposit.

[2)] A growth in cash balance as at 31 December 2016 results from trade strategy for liquidity of the portfolio denominated in EUR, for which a decision was made to leave the cash on the current bank account due to unprofitability of making deposits with negative interest.

Notes to the consolidated cash flow statement

The consolidated cash flow statement includes Prevention Funds as cash not available for use. Pursuant to Polish laws and the internal regulations adopted by the PZU Group entities on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities.

(in PLN million)

37. Assets held for sale

Assets held for sale before reclassification	31 December 2016	31 December 2015
Groups held for sale	**1,027**	**-**
Assets	1,060	-
Investment property	1,002	-
Receivables	12	-
Deferred tax assets	2	-
Cash and cash equivalents	42	-
Other assets	2	-
Liabilities directly associated with assets qualified as held for sale	33	-
Deferred tax liabilities	15	-
Other liabilities	18	-
Other assets held for sale	**129**	**1,506**
Tangible fixed assets	39	44
Investment property	90	1,462
Assets and asset groups held for sale	**1,189**	**1,506**
Liabilities directly associated with assets qualified as held for sale	**33**	**-**

As at 31 December 2016, the item "Groups held for sale" and, as at 31 December 2015, the item "Investment property" included the property held for sale by property investment funds as a result of achieving the expected investment horizon. Change in presentation results mainly from the planned method of sale realization. The table on the following page presents a summary of major properties for sale with their relevant parameters, which were included in the valuation.

All property enclosed in the table below was valuated with income approach using the investment method and simple capitalization technique. In the measurement unobservable input data were used, such as:

- capitalization rate – determined on the basis of the analysis of return rates achieved in transactions for similar property;
- monthly rental rate for $1m^2$ of appropriate type of space or for one parking lot (rental rates for each property have been presented in the table below).

(in PLN million)

No.	Name of the property	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Type of space	Ranges of unobservable data as at 31 December 2016	Ranges of unobservable data as at 31 December 2015
1.	Warehouse and office buildings, Łódź	263	253	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 2.40–3.80	EUR 7.50–9.00 EUR 2.50–4.00
2.	Warehouse and office buildings, Gdańsk	138	131	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 2.80–3.20	EUR 7.50–9.00 EUR 2.90–3.80
3.	Warehouse and office building, Nowa Wieś Wrocławska	124	128	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 3.00–3.60	EUR 7.50–9.00 EUR 2.50–4.20
4.	Warehouses, Czeladź	115	126	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 2.90–3.60	EUR 7.50–9.00 EUR 2.90–4.30
5.	Shopping center, Pabianice	88	92	Retail (depending on the size of the rented space)	1)	1)
6.	Retail park, Iława	70	69	Retail (depending on the size of the rented space)	1)	1)
7.	Warehouse and office buildings, Łódź	66	65	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 2.40–3.80	EUR 7.50–9.00 EUR 2.50–4.00
8.	Warehouse and office building, Nowa Wieś Wrocławska	65	65	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 3.00–3.60	EUR 7.50–9.00 EUR 2.50–4.00
9.	Warehouse and office building, Błonie	39	42	Office in warehouse facilities Warehouse	EUR 7.00–9.00 EUR 3.00–3.60	EUR 7.50–9.00 EUR 2.50–3.60
10.	Retail park, Lublin	34	35	Retail (depending on the size of the rented space)	1)	1)
11.	Retail building, Nowy Targ	22	39	Retail (depending on the size of the rented space)	2)	1)
12.	Other	68	417 3)	n/a	n/a	n/a
	Total	**1,092**	**1,462**			

1) The market rent for the property was determined based on a market analysis of retail space in similarly located buildings with similar characteristics to the property which is being measured.

2) In relation to change in investment plans, two properties with total value of PLN 299 million were reclassified as investment property. Their current measurements and scopes of data included in the measurement as at 31 December 2016 have been presented in point 10.2.

(in PLN million)

38. Issued share capital and other equity attributable to the owners of the parent entity

38.1 Share capital

All shares are paid in full.

At 31 December 2016

Series/ issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (in PLN)	Capital coverage	Registration date	Right to dividend (since)
A	bearer's	none	none	604,463,200	60,446,320	cash	23.01.1997	27.12.1991
B	bearer's	none	none	259,059,800	25,905,980	non-cash contribution	31.03.1999	01.01.1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

At 31 December 2015

Series/ issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (in PLN)	Capital coverage	Registration date	Right to dividend (since)
A	registered	none	none	40,110	4,011	cash	23.01.1997	27.12.1991
A	bearer's	none	none	604,423 090	60,442,309	cash	23.01.1997	27.12.1991
B	bearer's	none	none	259,059 800	25,905,980	non-cash contribution	31.03.1999	01.01.1999
Total number of shares				**863,523,000**				
Total share capital					**86,352,300**			

The shareholding structure of PZU and information on transactions regarding significant packages of PZU shares are presented in point 2.4.2.

38.1.1. Appropriation of profit of the parent entity

As regards the distributable profit for 2016 and the preceding years, only the profit disclosed in the separate financial statements of the parent entity, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

38.1.1.1. Appropriation of profit for 2015

On 20 May 2016, the Management Board of PZU applied to the General Meeting of Shareholders of PZU with a proposal for distributing the net profit of PZU for the year ended 31 December 2015 in the amount of PLN 2,248,522 thousand in the following way:

- PLN 1,796,128 thousand i.e. PLN 2,08 per share would be allocated for the payment of dividends;
- PLN 442,394 thousand would be allocated to the supplementary capital;
- PLN 10,000 thousand would be allocated to the Company's Social Benefits Fund.

On 30 June 2016, the General Meeting of Shareholders of PZU adopted a resolution, compliant with the request of the Management Board of PZU, on the distribution of PZU's net profit for the year ended 31 December 2015.

The dividend payment date was determined at 30 September 2016, and the dividend was paid on 21 October 2016.

(in PLN million)

38.1.1.2. Appropriation of profit for 2016

By the date of signing of consolidated financial statements, the Management Board of PZU had not adopted a resolution concerning appropriation of profit for 2016.

38.2 Other capitals

Other capitals	31 December 2016	31 December 2015
Own shares	(1)	-
Supplementary capital	10,758	9,947
Share premium	538	538
Division of results of the PZU Group entities	10,106	9,319
Other	114	90
Revaluation reserve	106	241
Measurement of available-for-sale financial instruments	25	129
Property reclassified from property, plant and equipment to investment property	89	111
Other comprehensive income of entities measured using the equity method	1	1
Cash flows hedge	(9)	-
Other reserve capital	5	-
Actuarial gains and losses concerning provisions for employee benefits	3	(4)
Exchange differences from translation	(2)	(42)
Lietuvos Draudimas AB	40	8
AAS Balta	12	5
PZU Ukraine	(49)	(48)
PZU Ukraine Life	(8)	(7)
Other	3	-
Total other reserves	**10,869**	**10,142**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January–31 December 2016	1 January–31 December 2015
Opening balance	129	127
Changes	(104)	2
- change in fair value	(130)	69
- sale	26	(67)
Closing balance	**25**	**129**

(in PLN million)

39. Technical provisions

Technical provisions	31 December 2016			31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Technical provisions – non-life insurance	**20,388**	**(990)**	**19,398**	**19,278**	**(1,097)**	**18,181**
Unearned premium reserve	6,957	(377)	6,580	5,643	(339)	5,304
Unexpired risks reserve	26	-	26	119	-	119
Outstanding claims provisions	7,730	(421)	7,309	7,706	(580)	7,126
- for claims reported	2,992	(371)	2,621	3,146	(528)	2,618
- for claims incurred but not reported (IBNR)	2,979	(29)	2,950	2,825	(29)	2,796
- for claims handling expenses	1,759	(21)	1,738	1,735	(23)	1,712
Provisions for the capitalized value of annuities	5,673	(192)	5,481	5,808	(178)	5,630
Provisions for bonuses and rebates for the insured	2	-	2	2	-	2
Technical provisions – life insurance	**21,806**	**-**	**21,806**	**22,002**	**-**	**22,002**
Unearned premium reserve	93	-	93	94	-	94
Life insurance provision	15,928	-	15,928	16,222	-	16,222
Outstanding claims provisions	542	-	542	558	-	558
- for claims reported	156	-	156	127	-	127
- for claims incurred but not reported (IBNR)	380	-	380	425	-	425
- for benefits handling	6	-	6	6	-	6
Provisions for bonuses and rebates for the insured	3	-	3	-	-	-
Other technical provisions	323	-	323	384	-	384
Unit-linked reserve	4,917	-	4,917	4,744	-	4,744
Total technical provisions	**42,194**	**(990)**	**41,204**	**41,280**	**(1,097)**	**40,183**

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Note 5.17.2.2), which are as follows:

Technical provisions for old portfolio	31 December 2016	31 December 2015
Life insurance provisions	419	443
Other technical provisions	134	169
- provisions for low interest rates	90	109
- provisions for litigations	44	60
IBNR and RBNP reserve	2	1
Total technical provisions – old portfolio	**555**	**613**

(in PLN million)

39.1 Technical provisions – non-life insurance

Technical provisions by classes specified in section II of the appendix to the Act on Insurance Activity	31 December 2016			31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Accident and sickness insurance (group 1 and 2)	**386**	**-**	**386**	409	(1)	408
Motor third-party liability insurance (group 10)	12,551	(306)	12,245	11,770	(264)	11,506
Other motor insurance (group 3)	2,446	(41)	2,405	2,022	(33)	1,989
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	94	(20)	74	100	(34)	66
Insurance against fire and other damage to property (groups 8, 9)	1,810	(271)	1,539	1,810	(287)	1,523
Third-party liability insurance (groups 11, 12, 13)	2,150	(92)	2,058	2,225	(83)	2,142
Credit insurance and suretyship (groups 14, 15)	183	(72)	111	187	(75)	112
Assistance (group 18)	239	(4)	235	184	(5)	179
Legal protection (group 17)	7	-	7	5	-	5
Other (group 16)	**522**	**(184)**	**338**	566	(315)	251
Total technical provisions	**20,388**	**(990)**	**19,398**	**19,278**	**(1,097)**	**18,181**

Technical provisions – non-life insurance	31 December 2016			31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Short-term	4,972	(265)	4,707	5,327	(307)	5,020
Long-term	15,416	(725)	14,691	13,951	(790)	13,161
Total technical provisions	**20,388**	**(990)**	**19,398**	**19,278**	**(1,097)**	**18,181**

Provisions are classified as long-term if the related cash flows are expected to occur after more than 12 months of the end of the reporting period, that is – after 31 December 2016.

Change in provisions

Change in unearned premiums reserve in non-life insurance	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,643	(339)	5,304	5,133	(302)	4,831
Increase (decrease) in provisions for policies concluded in the current year	6,552	(194)	6,358	5,213	(249)	4,964
Increase (decrease) in provisions for policies concluded in previous years	(5,255)	156	(5,099)	(4,689)	208	(4,481)
Exchange differences during the period	17	-	17	(14)	4	(10)
Total technical provisions	**6,957**	**(377)**	**6,580**	**5,643**	**(339)**	**5,304**

Change in unexpired risk reserve	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	119	-	119	19	-	19
Increase (decrease) in provisions for policies concluded in the current year	23	-	23	116	-	116
Increase (decrease) in provisions for policies concluded in previous years	(116)	-	(116)	(15)	-	(15)
Exchange differences during the period	-	-	-	(1)	-	(1)
Closing balance	**26**	**-**	**26**	**119**	**-**	**119**

(in PLN million)

Change in outstanding claims provisions in non-life insurance	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	7,706	(580)	7,126	7,259	(297)	6,962
Paid benefits concerning claims incurred in previous years, including:	(2,502)	247	(2,255)	(2,052)	51	(2,001)
- paid claims and benefits	(2,133)	241	(1,892)	(1,722)	47	(1,675)
- claims handling expenses	(369)	6	(363)	(330)	4	(326)
Increase (decrease) in provisions, including:	2,539	(87)	2,452	2,507	(334)	2,173
- for losses incurred in the current year	2,751	(66)	2,685	2,631	(343)	2,288
- for losses incurred in previous years	(212)	(21)	(233)	(124)	9	(115)
Other changes	(24)	(1)	(25)	-	(3)	(3)
Exchange differences during the period	11	-	11	(8)	3	(5)
Closing balance	**7,730**	**(421)**	**7,309**	**7,706**	**(580)**	**7,126**

Change in provisions for the capitalized value of annuities – non-life insurance	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,808	(178)	5,630	5,998	(154)	5,844
Paid claims concerning losses incurred in previous years	(325)	9	(316)	(215)	6	(209)
Increase (decrease) in provisions for losses incurred in the previous years	13	(22)	(9)	(116)	(26)	(142)
Changes in assumptions resulting from technical interest rate changes	(15)	-	(15)	(15)	-	(15)
Increase in provisions for losses incurred in the current year	168	-	168	166	-	166
Other changes	24	(1)	23	(10)	(4)	(14)
Closing balance	**5,673**	**(192)**	**5,481**	**5,808**	**(178)**	**5,630**

39.2 Technical provisions – life insurance

Change in life insurance provision – insurance contracts	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	16,606	-	16,606	16,722	-	16,722
Increase (decrease) in provisions related to current year policies	316	-	316	434	-	434
Increase (decrease) in provisions related to prior year policies	(668)	-	(668)	(527)	-	(527)
Foreign exchange differences	-	-	-	(23)	-	(23)
Closing balance	**16,254**	**-**	**16,254**	**16,606**	**-**	**16,606**

(in PLN million)

Gross change in life unit-linked insurance provision	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4,744	-	4,744	4,425	-	4,425
Increases in the fund due to premiums	956	-	956	966	-	966
Payments deducted from the fund for risk, administration and other	(91)	-	(91)	(90)	-	(90)
Revenue from the fund's investments	131	-	131	(3)	-	(3)
Decreases in the fund due to claims, redemptions, etc.	(799)	-	(799)	(538)	-	(538)
Other decreases	(24)	-	(24)	(16)	-	(16)
Closing balance	**4,917**	**-**	**4,917**	**4,744**	**-**	**4,744**

Gross change in provisions for outstanding claims	1 January–31 December 2016			1 January–31 December 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	558	-	558	512	-	512
Provisions for claims applied during the year	(562)	-	(562)	(564)	-	(564)
Provisions for claims created during the year	546	-	546	610	-	610
Closing balance	**542**	**-**	**542**	**558**	**-**	**558**

40. Provisions for employee benefits

Due to the adopted accounting policy and the fact that the PZU Group entities did not separate defined benefit assets, the carrying amount of defined benefit provisions is equal to the current value of the corresponding liabilities.

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Note 6.2.5.

Provisions for employee benefits	31 December 2016	31 December 2015
Provision for employee leaves	76	67
Defined benefits plans	49	47
- provisions for retirement severance pay	33	23
- provisions for death benefits	16	24
Other long-term employee benefits	3	3
Total provisions for employee benefits	**128**	**117**

41. Other provisions

Other provisions	31 December 2016	31 December 2015
Short-term	352	94
Long-term	15	14
Total other provisions	**367**	**108**

(in PLN million)

Changes in other provisions in the year ended 31 December 2016	Opening balance	Increase	Use	Release	Business combinations	Closing balance
Provision for restructuring expenses	3	200	(6)	-	55	252
Provision for disputed claims and potential liabilities	4	3	(1)	-	5	11
Provision for the Office of Competition and Consumer Protection penalties[1)]	58	-	-	-	-	58
Provision for exit costs of the GraphTalk project	6	-	-	-	-	6
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	9	-	-	-	-	9
Other	28	26	(8)	(25)	10	31
Total other provisions	**108**	**229**	**(15)**	**(25)**	**70**	**367**

Changes in other provisions in the year ended 31 December 2015	Opening balance	Increase	Use	Release	Business combinations	Closing balance
Provision for restructuring expenses	9	4	(6)	(4)	-	3
Provision for disputed claims and potential liabilities	1	-	-	-	3	4
Provision for the Office of Competition and Consumer Protection penalties[1)]	119	-	(50)	(11)	-	58
Provision for exit costs of the GraphTalk project	23	-	(17)	-	-	6
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7	2	-	-	-	9
Other	32	15	(17)	(9)	7	28
Total other provisions	**191**	**21**	**(90)**	**(24)**	**10**	**108**

[1)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in point 48.2 and 48.1.

Provision for restructuring expenses

The item includes mainly restructuring provision from Alior Bank in the amount of PLN 250 million and allocated for payment of statutory severance pays as a result of termination of employment under group redundancies and for so-called additional compensation that results from the agreement made with labor union organizations, and provision for costs related to restructuring of branch network and vacating these franchise branches located to close to one another (the provision covers the costs of compensations and external costs related with physical vacation of a branch and restoring its original condition).

42. Deferred income tax

For all consolidated entities participating in the TCG, deferred tax assets and provisions are offset assuming that the TCG agreement is going to be renewed for consecutive periods, hence, for the purpose of this settlement, the period in which temporary differences are expected to reverse is not being analyzed.

42.1 Deferred tax assets

As at 31 December 2016, undisclosed deferred tax assets related to tax losses were as follows:

- in Link4: PLN 17 million (as at 31 December 2015: PLN 11 million) – their realization will be possible in the period of up to 5 years counted from the moment in which Link4 ceases to be part of the TCG;
- in PZU Lietuva Gyvybes Draudimas: PLN 2 million (as at 31 December 2015: PLN 2 million) – unlimited period for realization.

(in PLN million)

Changes in deferred tax assets in the year ended 31 December 2016	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in group composition	Other changes 1)	Closing balance
Loan receivables from clients	230	6	-	74	-	310
Bank commissions collected in advance	145	51	-	98	-	294
Liabilities to clients	27	(5)	-	2	-	24
Intangible assets – trademarks and customer relations	(57)	9	-	-	-	(48)
Financial instruments	(2)	13	21	1	-	33
Property	(4)	4	-	-	-	-
Other provisions and accruals	12	39	-	(113)	5	(57)
Tax losses to be used in future periods	3	(1)	-	-	3	5
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	2	-	-	-	-	2
Provision for restructuring expenses	-	37	-	11	-	48
Tax allowance regarding operations in the special economic zone	13	-	-	-	-	13
Total deferred tax assets	**369**	**153**	**21**	**73**	**8**	**624**

Changes in deferred tax assets in the year ended 31 December 2015 (restated)	Opening balance	Changes recognized in profit or loss	Change in group composition	Other changes 1)	Closing balance
Loan receivables from clients	-	-	230	-	230
Bank commissions collected in advance	-	-	145	-	145
Liabilities to clients	-	-	27	-	27
Intangible assets – trademarks and customer relations	-	-	(57)	-	(57)
Financial instruments	(1)	1	(4)	2	(2)
Receivables	1	(1)	-	-	-
Property	2	(2)	-	(4)	(4)
Provisions for employee benefits	1	-	-	(1)	-
Provision for bonuses	2	-	-	(2)	-
Other provisions and accruals	8	-	8	(4)	12
Tax losses to be used in future periods	7	(1)	3	(6)	3
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1	1	-	-	2
Tax allowance regarding operations in the special economic zone	6	7	-	-	13
Total deferred tax assets	**27**	**5**	**352**	**(15)**	**369**

1) The item presents deferred assets and tax liabilities in some of PZU Group entities.

(in PLN million)

42.2 Deferred tax liabilities

Changes in deferred tax liabilities in the year ended 31 December 2016	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes	Closing balance
Financial instruments	233	(111)	(20)	6	108
Subrogation receivables	(2)	6	-	-	4
Property	51	29	1	(21)	60
Deferred acquisition costs	205	49	-	-	254
Accrued revenue and reinsurance costs	15	13	-	-	28
Intangible assets – trademarks and customer relations	44	(4)	-	1	41
Provisions for employee benefits	(14)	1	1	1	(11)
Provision for bonuses	(44)	(4)	-	2	(46)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(50)	(10)	-	-	(60)
Other provisions and accruals	(80)	(3)	-	3	(80)
Prevention Fund	16	-	-	-	16
Equalization provision	121	6	-	-	127
Provision for restructuring expenses	(1)	1	-	-	-
Tax losses to be used in future periods	(19)	(6)	-	3	(22)
Other differences	34	13	-	3	50
Total deferred tax liabilities	**509**	**(20)**	**(18)**	**(2)**	**469**

(in PLN million)

Changes in deferred tax liabilities in the year ended 31 December 2015	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Other changes [1]	Closing balance
Financial instruments	282	(51)	1	1	233
Subrogation receivables	(2)	-	-	-	(2)
Property	37	16	2	(4)	51
Deferred acquisition costs	121	84	-	-	205
Accrued revenue and reinsurance costs	(24)	39	-	-	15
Intangible assets – trademarks and customer relations	66	(22)	-	-	44
Provisions for employee benefits	(21)	7	-	-	(14)
Provision for bonuses	(44)	1	-	(1)	(44)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(47)	(3)	-	-	(50)
Other provisions and accruals	(104)	29	-	(5)	(80)
Prevention Fund	18	(2)	-	-	16
Equalization provision	114	7	-	-	121
Provision for restructuring expenses	(2)	1	-	-	(1)
Tax losses to be used in future periods	-	(13)	-	(6)	(19)
Other differences	704	830	-	-	34
Total deferred tax liabilities	**398**	**123**	**3**	**(15)**	**509**

1) The item presents deferred assets and tax liabilities in some of PZU Group entities.

(in PLN million)

43. Financial liabilities

Financial liabilities	31 December 2016	31 December 2015
Financial liabilities measured at fair value	**3,314**	**2,196**
Derivatives held for trading	781	940
Derivative instruments recognized as cash flow hedges	6	-
Liabilities arising from securities lending	654	207
Unit-linked investment contracts	329	393
Liabilities to participants of consolidated investment funds	1,544	656
Financial liabilities measured at amortized cost	**56,716**	**42,499**
Liabilities to banks	523	600
Current deposits	32	11
Overnight deposits	1	31
Term deposits	-	198
Bank instruments	20	33
Credits received	305	125
Other liabilities	165	202
Liabilities to clients	51,241	33,656
Current deposits	25,791	12,475
Term deposits	22,160	18,529
Bank instruments	2,769	2,259
Other liabilities	521	393
Liabilities arising from own debt instruments	3,680	3,537
Subordinated liabilities	1,027	759
Liabilities from sell-buy-back transactions	178	3,794
Investment contracts with guaranteed and fixed terms and conditions	67	153
Total financial liabilities	**60,030**	**44,695**

Financial liabilities by maturity	31 December 2016	31 December 2015
Up to 1 year	51,783	37,420
Over 1 year and up to 5 years	7,195	6,434
Over 5 years	1,052	841
Total financial liabilities by maturity	**60,030**	**44,695**

43.1 Subordinated liabilities

Total balance of subordinated liabilities concerns subordinated liabilities incurred by Alior Bank and recognized as its own funds.

	Nominal value	Rate	Date of issue/ granting a loan	Date of redemption/ loan payment
Subordinated loan (EUR million)	10	3-month EURIBOR + margin	12 October 2011	12 October 2019
F series bonds (PLN million)	322	6-month WIBOR + margin	26 September 2014	26 September 2024
G series bonds (PLN million)	193	6-month WIBOR + margin	31 March 2015	31 March 2021
I and I1 series bonds (PLN million)	183	6-month WIBOR + margin	4 December 2015	6 December 2021
Meritum Bank bonds (PLN million)	67	6-month WIBOR + margin	29 April 2013	29 April 2021
Meritum Bank bonds (PLN million)	80	6-month WIBOR + margin	21 October 2014	21 October 2022
EUR001 series bonds (EUR million)	10	6-month LIBOR + margin	4 February 2016	4 February 2022
P1A series bonds (PLN million)	150	6-month WIBOR + margin	27 April 2016	16 May 2022
P1B series bonds (PLN million)	70	6-month WIBOR + margin	29 April 2016	16 May 2024

Subordinated liabilities, carrying amount	31 December 2016	31 December 2015
Subordinated loan	44	43
F series bonds	225	225
G series bonds	196	196
I series bonds	114	114
I1 series bonds	33	33
Meritum Bank bonds	148	148
EUR001 series bonds	45	-
P1A series bonds	151	-
P1B series bonds	71	-
Subordinated liabilities	**1,027**	**759**

A lower carrying amount of subordinated liabilities versus the nominal value presented above results from the fact that a part of bonds issued by Alior Bank was included in consolidated investment funds.

43.2 Liabilities arising from the issue of own debt instruments

On 3 July 2014 and 16 October 2015, PZU (through its subsidiary, PZU Finance AB (publ.)), issued Eurobonds, with the redemption date of 3 July 2019. The bonds were released on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland, and on the Catalyst market. The issued bonds were tap issues and formed a single series of identical parameters regarding the value of the coupon, interest periods and maturity.

The parameters of the issued bonds:

	Nominal value (in EUR million)	Rate	Issue dates	Redemption date
Bonds of PZU Finance AB (publ.)	850	1.375%	3 July 2014 16 October 2015	3 July 2019

The bonds have been classified as measured at amortized cost.

Undiscounted cash flows from the issued debt securities	31 December 2016	31 December 2015
Up to 1 year	53	49
Over 1 year and up to 5 years	3,868	3,688
Total	**3,921**	**3,737**

The liabilities of PZU Finance AB (publ.) arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by PZU to all bondholders. The maximum value of the guarantee was not specified and it is valid upon the expiry of the claims of the bondholders towards PZU Finance AB (publ.).

43.3 Investment contracts

Total expected cash flows from investment contracts	31 December 2016	31 December 2015
Up to 1 year [1)]	467	505
Over 1 year and up to 5 years	42	44
Total	**509**	**549**

[1)] including cash flows from unit-linked contracts without determined payment date for which the carrying amount is presented.

Financial assets related to investment contracts:

- with guaranteed and fixed terms and conditions – bank deposits presented as "Loans and receivables – term deposits with credit institutions" or treasury bonds classified mainly as held to maturity.
- unit-linked – include mainly units in investment funds, recognized as "Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not listed on the regulated market", derivatives recognized as "Financial instruments measured at fair value through profit or loss – held for trading – derivatives", and bank deposits.

Statement of assets related to investment contracts has been presented in point 8.5.2.

43.4 Liabilities from sell-buy-back transactions

Transactions were secured with financial instruments, described in point 46.1.

Presented below is the basic characteristics of the sell buy-back transactions as at 31 December 2016.

Maturity dates of transactions	Carrying amount	Transaction currency	Carrying amount of assets pledged as security	Financial instrument pledged as security	Quantity
Up to 1 month	178	PLN	178	Treasury bonds	178,200
Total	178		178		178,200

(in PLN million)

44. Other liabilities

Other liabilities	31 December 2016	31 December 2015
Accrued costs	**1,192**	**1,008**
Accrued costs of brokers' commissions	301	272
Accrued costs of sales commission in group insurance	10	11
Accrued remuneration costs	170	114
Accrued costs from reinsurance	432	412
Accrued employee bonuses	149	86
Other	130	**113**
Deferred income	**152**	**117**
Other liabilities	3,653	2,445
Direct insurance liabilities	849	696
Reinsurance liabilities	133	97
Current income tax liabilities	225	69
Liabilities to the State Budget, other than due to income tax	56	34
Public legal settlements	67	52
Liabilities to employees [1)]	165	9
Insurance Guarantee Fund	16	11
Liabilities arising from financial instrument transactions	932	366
Liabilities from acquisition of third tranche of shares of Alior Bank	-	342
Trade payables to suppliers	91	122
Estimated non-insurance liabilities	119	176
Liabilities towards banks due to payment instruments cleared by the National Clearing House	593	184
Estimated returns of remuneration resulting from Alior Bank clients resigning or withdrawing from the insurance policies concluded during sale of credit products	71	94
Liabilities of Alior Bank due to banking product insurance offered to the clients of the bank	23	67
Direct claims handling liabilities	13	11
Liabilities from debit cards settlements	65	5
Liabilities from non-market lease agreements	38	29
Liabilities from donations	34	-
Other	163	81
Total other liabilities	**4,997**	**3,570**

[1)] Increase in accrued remuneration costs and liabilities to employees results mainly from prices related to realization of the acquisition of Bank BPH accrued by Alior Bank.

As at 31 December 2016 and 31 December 2015 the fair value of other liabilities did not differ substantially from their carrying amount, mainly due to the fact that over 90% of them are short-term liabilities.

Liabilities by maturity	31 December 2016	31 December 2015
Up to 1 year	4,814	3,500
Over 1 year and up to 5 years	181	61
Over 5 years	2	9
Total liabilities by maturity	**4,997**	**3,570**

(in PLN million)

45. Leasing

45.1 PZU Group as a lessor

Operating leases concern mainly investment property lease agreements. The table below presents minimum future lease payments from operational leasing (undiscounted amounts).

Future minimum receivables from lease payments	31 December 2016	31 December 2015
Up to 1 year	209	189
Over 1 year and up to 5 years	442	431
Over 5 years	129	137
Total future minimum receivables from lease payments	**780**	**757**

45.2 PZU Group as a lessee

The majority of liabilities from operating leases result from rental of retail and office space. PZU Group has a policy of concluding contracts for a limited period of 3 or 5 years with an option of extension. The table below presents minimum future lease payments from operational leasing (undiscounted amounts).

Liabilities due to minimum operating lease fees	31 December 2016	31 December 2015
Up to 1 year	210	116
Over 1 year and up to 5 years	321	262
Over 5 years	45	25
Total liabilities due to minimum operating lease fees	**576**	**403**

46. Assets recognized as collateral of receivables, liabilities and contingent liabilities

46.1 Financial assets recognized as collateral of liabilities

As at 31 December 2016 the treasury bonds with the carrying amount of PLN 178 million (as at 31 December 2015: PLN 3,809 million) held by the companies in PZU Group were used as collateral of the sell buy-back transactions described in point 43.4.

46.2 Financial assets recognized as collateral for granted loans

As at 31 December 2016 and 31 December 2015, PZU and PZU Życie were party to buy-sell-back transactions and granted loans secured on financial assets.

Information about the values of these transactions has been provided in point34.4.

46.3 Tangible fixed assets

As at 31 December 2016, tangible fixed assets were mortgaged up to the total amount of PLN 51 million (as at 31 December 2015: PLN 51 million).

(in PLN million)

47. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2016	31 December 2015
Contingent assets, including:	40	33
- guarantees and sureties received	40	33
Contingent liabilities	16,364	10,082
- resulting from renewable limits in current and saving accounts and credit cards	12,979	7,372
- guarantees and sureties issued	1,514	1,576
- disputed claims related to insurance	429	390
- other disputed claims	195	211 [1)]
- other, including:	1,247	533
- non-granted loan installments	1,195	473
- potential liabilities arising from loan agreements entered into by the Armatura Group	27	31

[1)] Including PLN 169 million of claims related to a motion for compensation arising from the deprivation of the right to the dividend described in point 48.1.

47.1 Loan facility, loan collateral or guarantees granted by PZU or its subsidiaries

In 2016, neither PZU nor its subsidiaries granted a loan collateral or a guarantee – to one entity or its subsidiary in total – if the total value of existing collaterals or guarantees would be equal in value to at least 10% of the PZU equity, except for the transactions described below.

On 31 March 2016, PZU granted to its subsidiary (Alior Bank) a guarantee of unfunded insurance credit protection regarding the selected loan portfolio of Alior Bank. The unfunded credit protection mitigated Alior Bank's credit risk through imposing on PZU the commitment to pay a specified amount in the event of the default of the borrower or on the occurrence of other specified credit events.

The value of Alior Bank’s claims portfolio covered by the guarantee amounted to PLN 3,104 million. After applying a 10% deductible of Alior Bank and limiting PZU’s maximum amount of liability arising from a single credit claim to PLN 50 million, the guarantee granted by PZU amounted to PLN 2,549 million. On 1 July 2016, Alior Bank terminated the guarantee agreement.

48. Litigation claims

The entities from PZU Group are parties in a number of court and arbitration disputes as well as administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts, and contractual obligations. The typical administrative proceedings involving PZU Group entities are those related to owned property. The proceedings and disputes are typical and repetitive, and in most cases none of them is significant for PZU Group.

Most disputes involving PZU Group entities pertain to three companies: PZU, PZU Życie and Alior Bank. In addition, PZU and PZU Życie participate in proceedings before the President of the Office of Competition and Consumer Protection (OCCP).

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavorable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities at PZU Życie are recognized in other technical provisions in the amount of annual annuity in excess of the corresponding provision amount as determined in mathematical provisions for life insurance.

In 2016 and by the date of submission of the consolidated financial statements, PZU Group entities did not take part in any proceedings before court, competent authority for arbitration proceedings or public administration authority concerning liabilities or debt of PZU or its direct or indirect subsidiary of singular value amounting to at least 10% of the PZU equity.

As at 31 December 2016, the total value of all 134,769 cases (as at 31 December 2015: 121,918) heard by courts, competent authority for arbitration proceedings or public administration authority involving the PZU Group entities amounted to PLN 4,357 million (as at 31 December 2015: PLN 4,898 million). The amount includes PLN 3,374 million (as at 31 December 2015: PLN 3,131 million) of liabilities, while PLN 983 million (as at 31 December 2015: PLN 1,767 million) relates to debt of PZU Group entities, which amounted to 27.62% and 8.04% (as at 31 December 2015, respectively: 25.29% and 14.28%) of equity of PZU in accordance with PAS.

All information available at the date of signing the consolidated financial statements has been taken into account regarding estimations of provisions, however that value may be subject to change in the future.

48.1 Resolution of the General Meeting of Shareholders of PZU regarding 2006 profit distribution

On 30 July 2007, a lawsuit was filed by Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancellation of the General Meeting of Shareholders of PZU's Resolution No. 8/2007 of 30 June 2007 on distribution of PZUs' profit for 2006 as non-compliant with best practices and acting to the detriment of the plaintiff, a shareholder of PZU.

The contested resolution of the General Meeting of Shareholders of PZU distributed the 2006 profit of PLN 3,281 million in the following manner:

- PLN 3,261 million to the supplementary capital;
- PLN 20 million to the Social Benefits Fund.

Through its ruling, on 22 January 2010, the District Court in Warsaw cancelled the aforementioned resolution. PZU appealed against the judgment in its entirety, including final appeal to the Supreme Court with respect to the aforementioned decision, which dismissed the cassation complaint on 27 March 2013. The judgment is final and non-appealable.

PZU believes that cancelation of the above GMS resolution does not give rise to shareholders' claim for dividend.

Following the decision cancelling resolution No. 8/2007 becoming effective, the agenda of the PZU GMS of 30 May 2012 included a point regarding distribution of profit for 2006 in a manner corresponding to the cancelled resolution No. 8/2007. Manchester Securities Corporation objected to the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of the lawsuit filed by MSC with the District Court in Warsaw, which stated that said company sought the cancellation of the resolution of the General Meeting of Shareholders of PZU dated 30 May 2012 on the distribution of profit for 2006, and the value of the subject of dispute was determined by the plaintiff at the amount of PLN 5 million. PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in their entirety and the costs of the proceedings were awarded from PZU to MSC. On 4 March 2014, PZU appealed against the judgment in its entirety. On 11 February 2015, the Appellate Court in Warsaw passed a judgment that changed the judgment of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgment of the Appellate Court is final and non-appealable. MSC filed a cassation appeal on 9 June 2015 against the judgment of the Appellate Court in its entirety. PZU filed its response to the cassation appeal. With the decision issued on 19 April 2016, the Supreme Court refused to accept the cassation appeal of MSC for consideration. The decision is final, no further appeal may lie on the order of the provisions of the Code of Civil Procedure and it ends the legal proceedings concerning the matter.

Meanwhile, on 16 December 2014, MSC called PZU to pay PLN 265 million of compensation due to the cancellation of the resolution No. 8/2007 of the General Meeting of Shareholders of PZU dated 30 June 2007 on the distribution of profit of PZU for 2006. PZU declined to fulfil the obligation because the obligation was not valid.

On 23 September 2015, PZU received a copy of a motion with attachments regarding the action initiated by MSC against PZU for the payment of PLN 169 million with statutory interest accrued from 2 January 2015 until the date of the payment. The action includes a claim for compensation for the deprivation of MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan), as minority shareholders of PZU, a share in the profit for the year 2006, in connection with a Resolution No. 8/2007 adopted by the General Meeting of Shareholders of PZU on 30 June 2007. The case is being handled by the District Court in Warsaw. On 18 December 2015, PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety. On 1 April 2016, MSC filed a pleading in which it addressed the claims, charges and motions of PZU and provided further evidence in the case. On 30 June 2016, PZU replied to the last pleading of MSC and provided evidence motions. With the decision issued on 21 July 2016, the Court referred the case to mediation, on which PZU did not grant consent. The date of another hearing during which evaluation of the evidence is to take place has been determined at 31 March 2017.

According to the Management Board, MSC's claims are unfounded. As a result, as at 30 September 2016, no changes in the presentation of PZU capitals were made that may result from cancellation of the Resolution No. 8/2007 of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)", as well as the funds appropriated to the Company's Social Benefits Fund were not adjusted.

48.1.1. Other demands for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56 million and the amount of PLN 1 million as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU declined to fulfill the obligation because the obligation was not valid.

Apart from the above mentioned documents, the shareholders or the former shareholders or their successors in title presented PZU with a request for payment based on the facts presented above. The parties requesting the payment did not indicate specific amounts, but a number of shares, or simply requested the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

48.1.2. Other legal proceedings concerning the distribution of profit of PZU for 2006

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56 million. At the hearing on 19 February 2015, PZU refused to conclude a settlement.

PZU received other copies of motions to summon a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. Some of the proceedings have already ended. PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

7 legal actions were initiated against PZU for the payment of dividends or compensation. PZU consistently responds to such requests demanding their cancellation in their entirety. In six cases, the District Courts in Warsaw dismissed the claims in their entirety (in five cases the judgments are final, in one case the claimant appealed against the decision, to which PZU has responded by demanding its dismissal in its entirety). In one case, the District Court discontinued the proceedings due to the withdrawal of the claim (the decision is final).

48.2 Proceeding conducted by the President of the Office of Competition and Consumer Protection ("OCCP") against PZU

In a decision of 30 December 2011, the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 57 million for the use of practices that limit competition and infringe the prohibition specified in Article 6. 1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the customers of PZU in the Kujawsko-Pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those customers. The Office demanded that the practices be discontinued.

The Management Board of PZU refuses to agree with the facts and legal reasons presented in the decision, because the decision does not consider all the evidence and the legal classification was incorrect.

On 18 January 2012, PZU appealed against the decision (thus the decision did not become valid). In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;
- majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of the President of OCCP to its appeal. On 27 March 2015, the District Court in Warsaw issued a judgment overruling the decision of the President of OCCP of 30 December 2011. On 21 May 2015, the President of OCCP filed an appeal. On 24 June 2015, PZU filed its response to the appeal of the President of OCCP. With the judgment of 6 December 2016, the Appellate Court in Warsaw overruled the decision of the District Court in Warsaw and remanded the matter for a new trial.

PZU recognized a provision for the above fine, whose amount both as at 31 December 2016 and 31 December 2015 was PLN 57 million.

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

On 1 June 2005, at the request of several petitioners the President of OCCP instituted anti-monopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might have constituted a breach of the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of OCCP imposed a fine of PLN 50 million on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagreed both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant. PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of the OCCP.

After many years of proceedings, on 30 September 2015 PZU Życie paid the imposed fee in the amount of PLN 50 million and the costs it was charged with. On 18 March 2016, PZU Życie to the Supreme Court filed a cassation appeal, to which it received a response of President of Office of Competition and Consumer Protection on 10 May 2016. On 24 May 2016, PZU Życie filed its reply to the response of the President of OCCP.

Due to the penalty paid by PZU Życie, as at both 31 December 2016 and 31 December 2015, there was no need to maintain any additional provisions related to the matter.

48.4 Submission of PZU claims to the insolvency estate of PBG Capital Group companies

PZU is the creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both located in Wysogotowo near Poznań, for the issued and executed insurance guarantees (contractual guarantees).

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012, PZU joined the above proceedings submitting its claims to the insolvency estate of both companies.

PBG and Hydrobudowa belong to the same capital group with PBG as the parent entity. They granted sureties to each other. All claims submitted to the insolvency estate of Hydrobudowa in the amount of PLN 101 million have been therefore submitted in relation to the insolvency estate of PBG as well.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103 million have been entered into the list of liabilities. As at 31 December 2016, the sureties amounted to PLN 99 million (as at 31 December 2015: PLN 102 million), and their decrease resulted from expiration of guarantees to which no claims were reported. Due to the fact that the receivable is highly unlikely to be redeemed, the amount was not recognized in the financial statements. At the creditors' meeting of 5 August 2015, PZU voted in favor of an agreement, and on 25 August 2015, the judge-commissioner confirmed the voting results and the conclusion of the agreement. On 8 October 2015, the bankruptcy court announced its decision, in which it approved the agreement concluded with the creditors. On 20 July 2016, the Bankruptcy Court issued a decision ending the bankruptcy proceedings. The decision is final.

In effect of realizing the agreement and reducing the receivables to the level of 20.93% of the receivables declared, PZU received 206,139 PGB bonds with a nominal value of PLN 21 million and 24,241,560 PGB shares with a nominal value of PLN 24 million. Both bonds and shares have not been recognized in the consolidated financial statements due to their nominal value described as zero, but they have been recognized in the off-balance records.

On the first list of claims presented to the judge-commissioner by the Receiver of Hydrobudowa there was the claim of PZU SA in the amount of PLN 16 million. The list of claims to the insolvency estate of Hydrobudowa has not been yet definitely established. The bankruptcy proceedings against Hydrobudowa is in progress. Determining the final list of claims is only the initial stage of these proceedings, as well as it precedes the preparation of the plan of division (after the liquidation of the insolvency estate).

49. Related party transactions

49.1 Remuneration of Members of the Management and Supervisory Board, top level management and supervisory boards of PZU Group entities included in consolidation, including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2016 and 2015 the companies in PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.

49.1.1. Remunerations in the parent entity

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below. Data concerning remuneration have been presented in PLN thousand.

Remunerations and other short-term employee benefits paid by PZU	1 January–31 December 2016 (in PLN thousand)		1 January–31 December 2015 (in PLN thousand)	
		including bonuses and special rewards:		including bonuses and special rewards:
Management Board, including:	**9,066**	**-**	**8,124**	**2,862**
Michał Krupiński	1,377	-	-	-
Roger Hodgkiss	634	-	-	-
Andrzej Jaworski	434	-	-	-
Tomasz Kulik	-,[1)]	-	-	-
Maciej Rapkiewicz	581	-	-	-
Beata Kozłowska-Chyła	634[2)]	-	-	-
Robert Pietryszyn	273	-	-	-
Paweł Surówka	176	-	-	-
Sebastian Klimek	579[3)]	-	-	-
Przemysław Dąbrowski	683[5)]	-	1,112	371
Dariusz Krzewina	668,[6)]	-	1,281	507
Tomasz Tarkowski	121	-	995	332
Rafał Grodzicki	520[7)]	-	312	-
Andrzej Klesyk	1,950[4)]	-	2,970	1,170
Witold Jaworski	436[8)]	-	260	-
Ryszard Trepczyński	-	-	1,194[9)]	482
High level management (Directors of PZU Group), including:	**4,503**	**199**	**3,799**	**1,530**
Aleksandra Agatowska	505	-	-	-
Tomasz Karusewicz	611	-	-	-
Bartłomiej Litwińczuk	241	-	-	-
Sławomir Niemierka	862	199	963	300
Roman Pałac	581	-	-	-
Paweł Surówka	455[10)]	-	-	-
Tobiasz Bury	706[11)]	-	1,276	606
Przemysław Henschke	542[12)]	-	936	312
Rafał Grodzicki	-	-	624	312
Supervisory Board, including:	**1,241**	**-**	**1,224**	**-**
Paweł Kaczmarek	191	-	84	-
Maciej Zaborowski	143	-	-	-
Marcin Chludziński	119	-	-	-
Alojzy Nowak	120	-	120	-
Jerzy Paluchniak	118	-	-	-
Marcin Gargas	167	-	-	-
Eligiusz Krześniak	119	-	-	-
Piotr Paszko	119	-	-	-
Radosław Potrzeszcz	119	-	-	-
Piotr Walkowiak	11	-	-	-
Zbigniew Ćwiąkalski	3	-	180	-
Zbigniew Derdziuk	2	-	120	-
Dariusz Filar	2	-	132	-

(in PLN million)

Dariusz Kacprzyk	2	-	120	-
Jakub Karnowski	2	-	120	-
Aleksandra Magaczewska	2	-	156	
Maciej Piotrowski	2	-	120	-
Tomasz Zganiacz	-	-	72	-

[1] remuneration only from PZU Życie, amount in the following table
[2] including remuneration resulting from competition prohibition in the amount of PLN 55 thousand
[3] including remuneration resulting from competition prohibition in the amount of PLN 111 thousand
[4] including remuneration resulting from competition prohibition in the amount of PLN 1.350 thousand
[5] including remuneration resulting from competition prohibition in the amount of PLN 332 thousand
[6] including remuneration resulting from competition prohibition in the amount of PLN 55 thousand
[7] including remuneration resulting from competition prohibition in the amount of PLN 312 thousand
[8] including remuneration resulting from competition prohibition in the amount of PLN 195 thousand
[9] including remuneration resulting from competition prohibition in the amount of PLN 185 thousand
[10] including remuneration resulting from the advisory function to the Management Board of PZU in the amount of PLN 345 thousand in the period of 24 April 2016 – 31 October 2016
[11] including remuneration resulting from competition prohibition in the amount of PLN 371 thousand
[12] including remuneration resulting from competition prohibition in the amount of PLN 312 thousand

Remunerations and other short-terms employee benefits paid by other PZU Group entities	1 January–31 December 2016 (in PLN thousand)		1 January–31 December 2015 (in PLN thousand)	
		including bonuses and special rewards:		including bonuses and special rewards:
Management Board, including:	**4,266**	**-**	**3,310**	**1,279**
Roger Hodgkiss	599	-	-	-
Andrzej Jaworski	208	-	-	-
Tomasz Kulik	206	-	-	-
Maciej Rapkiewicz	208	-	-	-
Paweł Surówka	329	-	-	-
Beata Kozłowska-Chyła	329[1)]	-	-	-
Robert Pietryszyn	135	-	-	-
Sebastian Klimek	208[2)]	-	-	-
Przemysław Dąbrowski	368[3)]	-	799	400
Dariusz Krzewina	360[4)]	-	690	273
Tomasz Tarkowski	801[5)]	-	536	179
Rafał Grodzicki	280[6)]	-	504	168
Witold Jaworski	235[7)]	-	138	-
Ryszard Trepczyński	-	-	643,[8)]	259
High level management (Directors of PZU Group), including:	**2,332**	**107**	**1,546**	**492**
Aleksandra Agatowska	272	-	-	-
Tomasz Karusewicz	329	-	-	-
Bartłomiej Litwińczuk	147	-	-	-
Sławomir Niemierka	599	107	464	107
Roman Pałac	313	-	-	-
Tobiasz Bury	380[9)]	-	578	217
Przemysław Henschke	292[10)]	-	504	168

1) including remuneration resulting from competition prohibition in the amount of PLN 119 thousand (PZU Życie)
2) including remuneration resulting from competition prohibition in the amount of PLN 138 thousand (PZU Życie)
3) including remuneration resulting from competition prohibition in the amount of PLN 179 thousand (PZU Życie)
4) including remuneration resulting from competition prohibition in the amount of PLN 30 thousand (PZU Życie)
8) including remuneration resulting from competition prohibition in the amount of PLN 150 thousand (Link4)
6) including remuneration resulting from competition prohibition in the amount of PLN 168 thousand (PZU Życie)
7) including remuneration resulting from competition prohibition in the amount of PLN 105 thousand (PZU Życie)
8) including remuneration resulting from competition prohibition in the amount of PLN 100 thousand (PZU Życie)
9) including remuneration resulting from competition prohibition in the amount of PLN 200 thousand (PZU Życie)
10) including remuneration resulting from competition prohibition in the amount of PLN 168 thousand (PZU Życie)

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries	1 January–31 December 2016 (in PLN thousand)	1 January–31 December 2015 (in PLN thousand)
Management Board, including:	**1,057**	**1,224**
Michał Krupiński	79	-
Roger Hodgkiss	36	-
Andrzej Jaworski	77	-
Tomasz Kulik	76	-
Maciej Rapkiewicz	101	-
Paweł Surówka	54	-
Beata Kozłowska-Chyła	105	-
Robert Pietryszyn	51	-
Sebastian Klimek	66	-
Andrzej Klesyk	56	298
Przemysław Dąbrowski	92	191
Dariusz Krzewina	126	209
Tomasz Tarkowski	48	178
Rafał Grodzicki	51	129
Witold Jaworski	39	40
Ryszard Trepczyński	-	179
High level management (Directors of PZU Group), including:	**605**	**600**
Aleksandra Agatowska	97	-
Tomasz Karusewicz	51	-
Bartłomiej Litwińczuk	51	-
Sławomir Niemierka	171	176
Roman Pałac	93	-
Tobiasz Bury	60	213
Przemysław Henschke	82	167
Rafał Grodzicki	-	44
Supervisory Board, including:	**-**	**11**
Zbigniew Ćwiąkalski	-	10
Jakub Karnowski	-	1

49.1.2. Remunerations in other PZU Group entities

Remuneration paid to members of the Management Boards and Supervisory Boards of other PZU Group entities:

Type of services	1 January–31 December 2016 (in PLN thousand)	1 January–31 December 2015 (in PLN thousand)
Members of the Management Boards	44,857	21,586
Members of the Supervisory Boards	2,748	875

49.2 Other related party transactions

Balances and turnovers of transactions between PZU Group and related parties	1 January–31 December 2016 and as at 31 December 2016		1 January–31 December 2015 and as at 31 December 2015	
	Key managers of main units [1]	Other related parties [2]	Key managers of main units [1]	Other related parties [2]
Gross written premium				
in non-life insurance	-	3	-	3
in life insurance (including investment contracts)	-	-	-	-
Other income	-	-	-	-
Costs	-	-	-	-
Receivables		-		-
Liabilities	-	-	-	-
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1] High level management, data as per statements.
[2] Non-consolidated company in liquidation as well as associates and joint ventures measured with the equity method.

(in PLN million)

49.3 Presentation of transactions with entities related to the State Treasury

Non-life insurance contracts, life insurance contracts and investment contracts constituted the majority of transactions with subsidiaries, joint-ventures and associates of the State Treasury. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Insurance receivables from and liabilities to the parties related to the State Treasury usually are short-term.

As such information is useful, PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from the largest transactions with subsidiaries of the State Treasury.

Gross written premium [1] from the largest counterparties of PZU Group that are subsidiaries to the State Treasury

Counterparty	1 January–31 December 2016	Counterparty	1 January–31 December 2015
Counterparty 1	169	Counterparty 1	226
Counterparty 2	76	Counterparty 2	68
Counterparty 3	9	Counterparty 6	18
Counterparty 4	7	Counterparty 4	6
Counterparty 5	2	Counterparty 5	1

[1] The item includes gross written premium in non-life insurance (from direct insurance and reinsurance inwards to the entities from the capital group of the counterparty), life insurance and volumes of investment contracts.

50. Employment

The table below presents the average number of employees in the PZU Group entities.

Type of services	1 January–31 December 2016	1 January–31 December 2015
Management Boards (number of people at the end of the financial year)	76	81
Management	2,207	1,448
Advisors	8	7
Other employees	24,727	21,589
Total	**27,018** [2]	**23,125**[1]

[1] The amount includes data concerning employment in Alior Bank (6,346 FTEs).

[2] The amount includes data concerning employment in the Core Business of Bank BPH (3,696 FTEs), which was acquired by Alior Bank.

51. Other information

51.1 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts due to entities authorized to audit financial statements of PZU paid and payable for the reporting period, including VAT, and determined on the accrual basis.

Type of services	1 January - 31 December 2016 (in PLN thousand)	1 January - 31 December 2015 (in PLN thousand)
Audit of the financial statements	1,365	1,488
Other assurance services	1,350	248
Other services	27	27
Total	**2,742**	**1,763**

An agreement with KPMG Audyt Sp. z o.o. sp. k. concerning the reviews and audits of the separate financial statements of PZU and the consolidated financial statements of PZU Group for the years 2014–2016, with an option to extend the agreement for the years 2017–2018, was concluded on 26 June 2014.

51.2 Employment restructuring process

On 9 March 2017, the Management Boards of PZU and PZU Życie decided to continue restructuring of employment in PZU and PZU Życie. The Management Boards of PZU and PZU Życie addressed the trade unions operating at PZU and PZU Życie to start working on agreements concerning group releases.

The restructuring of employment in PZU and PZU Życie is planned for the period between 24 March and 18 December 2017. The restructuring process will cover up to 1,944 people with estimations seeing 956 employees of PZU and PZU Życie from various professional groups subject to employment reduction.

The costs associated with payment of benefits to employees released due to employment restructuring are assessed in the budget of PZU for 2017 and will be included in the annual consolidated financial statement for the year 2017.

51.3 Inspection and surveillance missions of PFSA

51.3.1. PZU

During the period between 17 April and 17 June 2015, the Polish Financial Supervision Authority (PFSA) conducted an inspection at PZU concerning the scope of the use of services of insurance agents.

On 12 January 2016, PZU received the report of the inspection, which raised objections on 27 January 2016.

In the period between 14 April and 19 May 2016, the inspection concerning the activity and assets of the company in scope of claims handling took place.

On 13 July 2016, PZU received the report of the inspection, which raised objections on 27 July 2016. On 18 November 2016, PZU received three post-control recommendations which were implemented by 31 January 2017. According to the Management Board of PZU, the results of the abovementioned inspection will not influence the consolidated financial statement.

51.3.2. PZU Życie

During the period between 25 July and 24 August 2016, PFSA conducted a surveillance mission at PZU Życie. The mission aimed to verify compliance with the requirements for the management system in the scope of providing efficient system for sharing information with supervisory authority. PZU Życie agreed with PFSA's findings concerning the method of reporting in the scope of insurance capital funds and, starting with the reporting date of 31 December 2016, implemented the changes agreed to.

During the period between 27 September and 25 November 2016, PFSA conducted an inspection at PZU Życie in the scope of the use of services of insurance agents, concerning especially:

- supervision of the insurance company over the activity of insurance agents;
- regularities for concluding agency agreements in terms of compliance with the provisions of law;
- conducting training and examination of agents;
- regularities for reporting modifications to the register of insurance agents.

To the date of the financial statements, PZU Życie has not received a post-control report.

51.4 Situation in Ukraine

In 2016, despite first signs of the improving economic situation and stabilizing political environment in Ukraine, the insurance market was still operating in hard conditions resulting from the country's weak economy, low client activity, devaluation processes, and drop in liquidity of the banking system. The market was also characterized by a high level of costs relating to sale of insurance products, difficulties of some insurance companies to retain their current liquidity, and lowering the level of trust of natural persons, which resulted from the problems connected with liquidity of part of the banking system. The trend of clients choosing reliable and solvent insurers with western capital that was started in 2014 was eventually replaced in favor of price. Despite these conditions, PZU Ukraine and PZU Ukraine Life Insurance, by diversifying their portfolios and sales channels, were more flexible to market changes and implemented their sales plans for 2016.

The Management Board of PZU, in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance, carries out constant monitoring of external risks and changes in the Ukrainian regulations. PZU developed scenarios and control mechanisms to respond to market changes in Ukraine. The company does not intend to withdraw its operations from the Ukrainian market. As at the date of signing the consolidated financial statements, the Management Board of PZU assumes that the further activity of PZU Ukraine and PZU Ukraine Life Insurance will be continued in accordance with the approved objectives; however, the unstable business environment of Ukraine could negatively affect the results and financial standing of PZU Ukraine and PZU Ukraine Life Insurance in the future in a manner not currently determinable. These consolidated financial statements reflect the current assessment of the Management Board of PZU in this respect.

51.5 Acquisition of Bank Pekao SA

On 28 September 2016, the negotiations started aiming at the acquisition of a substantial package of Pekao shares from UniCredit S.p.A. ("Seller", "UniCredit", PZU, PFR and Sellers are collectively referred to as "Parties") by PZU acting in consortium with PFR. The negotiations ended on 8 December 2016.

The Management Board and the Supervisory Board of PZU granted their consent for concluding the Share Purchase Agreement ("SPA") with UniCredit concerning the package of shares of Pekao, as well as for concluding other agreements indispensable for the realization of the planned transaction.

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

The point of the transaction resulting from the SPA is the acquisition of a substantial (ultimately covering approx. 32.8% of the total number of votes) Pekao shares package by PZU and PFR acting in concert. The transaction shall be realized under the structure covering two stages.During the first stage:

- PZU will purchase from the Seller 100% of shares in the special purpose vehicle ("SPV"), which will be the owner of Pekao shares representing approx. 20% of the total number of votes; and, at the same time,
- PFR will perform direct acquisition of the share package representing approx. 10% of the total number of votes.

In the second stage, falling to a period no shorter than 60 days from the first acquisition, PFR will directly acquire the remaining package of Pekao shares covered by the SPA, representing approx. 2.8% of the total number of votes (both stages combined are called "the Transaction").

The price agreed upon by the Parties is PLN 123 per share, which implies total price of PLN 10,589 million for the whole package acquired by PZU and PFR, of which the price for the package purchased by PZU amounts to PLN 6,457 million. As a rule, SPA does not provide the basis for corrections of acquisition price except for automatic decrease of the total sales price by the amount of the dividends paid to the Seller.

The realization of the transaction will be conditional upon the fulfillment of the conditions precedent described in the SPA, which include mainly the following:

(i) obtaining consents of anti-trust authorities operating in Poland and Ukraine; and

(ii) obtaining appropriate consents or decisions of PFSA by the Seller and PZU and PFR.

According to the SPA, the conditions have to be fulfilled before the end date, which, as a rule, is fixed at the first anniversary of signing the SPA, i.e. on 8 December 2017. In the case in which the conditions are not met or are cancelled in accordance with SPA, each party shall be entitled to terminate the SPA, which will result in withdrawal from the realization of the Transaction in line with the rules determined in the SPA.

SPA covers a specific catalogue of declarations and warranties made by the Seller with regard to the shares for sale and to business situation and condition of Pekao and other entities from the capital group of Pekao. Moreover, SPA provides exemption from liability to PZU and PFR due to any damages resulting from regulatory changes influencing Pekao's current credit portfolio denominated in CHF. The Parties agreed that the abovementioned exemption from liability will not exceed the amount agreed upon and will be available to PZU and PFR generally for the period of 3 years since the acquisition of Pekao shares by PZU and PFR during the first stage of the Transaction.

Under the SPA, PZU and PFR agreed with the Seller on the prohibition clause biding the Seller and the entities from its capital group, as well as on the non-solicitation clause concerning key staff members of Pekao.

Due to the need to appropriately separate Pekao from the Seller's capital group, the Parties will conclude an agreement regulating the basic rules for separating Pekao (in terms of IT) from the Seller's capital group. The agreement shall determine the rules mainly for the provision of process handling continuity based on the IT systems owned by Pekao and regulation of the principles and costs related to ensuring Pekao's self-sufficiency after the realization of the Transaction in the context of access to services and rights to software.

Moreover, the Parties determined that their intention is to fully include Pioneer Pekao Investment Management SA (and, indirectly through this, Pioneer Pekao TFI SA as well), Pekao Pioneer PTE SA and Dom Inwestycyjny Xelion Sp. z o.o. in the capital group of Pekao. Therefore, SPA included a term sheet for the purchase of shares of the entities mentioned above, which as at the date of signing the SPA were owned by the Seller (or the entities from its group) and not by Pekao.

It was determined that the maximum share purchase price for Pioneer Pekao Investment Management SA, Pekao Pioneer PTE SA and Dom Inwestycyjny Xelion Sp. z o.o. will not exceed the amount of PLN 634 million in total, and the shares will be purchased for this price by either Pekao or PZU or the entity indicated by PZU. As a rule, there is no basis for corrections of the abovementioned acquisition prices except for automatic decrease of the total sales prices by the amount of dividends paid to the Seller or the entities from its group.

On 8 December 2016, in relation to the SPA, PZU and PFR concluded also the Consortium Agreement. The Consortium Agreement determines mutual rights and obligations of PZU and PFR in terms of carrying out and closing the Transaction and joint cooperation of PZU and PFR in relation to SPA and the Transaction ("Consortium Agreement").

The law governing the SPA, the Consortium Agreement and the Shareholders' Agreement is the Polish law.

Shareholders' Agreement between PZU and PFR

On 23 January 2017, PZU and PFR singed the Shareholders' Agreement ("Shareholders' Agreement") constituting a part of documentation for the transaction of acquisition of a substantial package of Pekao shares described above.

The Shareholders' Agreement was concluded due to the fact that PZU and PFR want to: build long-term value of Pekao, pursue the policy to provide development, financial stability and effective yet prudent management towards Pekao after closing the share purchase agreement, as well as provide adequate standards of corporate governance for Pekao.

The point of the Shareholders' Agreement is to set the rules of cooperation between PZU and PFR after the realization of Pekao shares purchase and the rights and obligations of Pekao's shareholders, especially in terms of determining the method of exercising the joint voting rights attached to the owned shares, as well as to manage the common long-term policy for Pekao's activity in order to achieve the abovementioned goals.

Especially the provisions of the Shareholders' Agreement cover the following matters:

- PZU and PFR mutually agreed to vote "for" adopting the resolutions concerning distribution of profit and dividend payout according to the rules and within the limits determined by the applicable provisions of law and PFSA's recommendations and in line with the current practices of Pekao;
- with reservation of certain exceptions – in a situation in which the consensus upon the method of exercising voting rights is not reached by PZU and PFR, PZU will determine the method for voting and PFR will be obliged to vote in accordance with PZU's standpoint;
- mutual obligations of PZU and PFR aiming at limiting the possibilities of disposal of owned Pekao shares by each party, as well as contractual pre-emptive right in a case in which a party intends to dispose any or all owned Pekao shares;
- party's right to perform shares repurchase concerning the shares owned by the other party which would reject or terminate the Shareholders' Agreement;
- rules of cooperation and mutual relations between PZU and PFR and the entity providing financing to PFR for the realization of Pekao shares purchase. PZU and PFR will also start negotiations in order to conclude an additional tripartite agreement with this entity, which will provide clarifications on their mutual relations in the context of the content of the Shareholders' Agreement and documentation of financing PFR;
- method of conduct for the Parties in order to monitor if they fulfill the obligations arising from the Act of 29 July 2005 on Public offering, conditions governing the introduction of financial instruments to organized trading, and public companies (i.e. Journal of Laws of 2016, item 1639), as well as to exclude the obligation to make a call to subscribe for sale of Pekao shares in line with the provisions of the abovementioned Act.

The Shareholders' Agreement comes into force on the date of realization of the first stage of the Transaction concerning Pekao shares purchase by PZU and PFR.

The Shareholders' Agreement was concluded for a limited period of 5 years from the time of entry into force, and during the period of 12 months from its coming into effect it cannot be rejected or terminated by either party.

The law governing the Shareholders Agreement is the Polish law.

51.6 Events after the financial year

An important event which took place after the end of the financial year was the announcement of employment restructuring program described in point 51.2 and the conclusion of the Shareholders' Agreement between PFR and PZU described in point 51.5.

Signatures of Members of the Management Board of PZU

Name and surname	Position	
Michał Krupiński	President of the Management Board	.... (signature)
Tomasz Kulik	Board Member	.... (signature)
Roger Hodgkiss	Board Member	.... (signature)
Andrzej Jaworski	Board Member	.... (signature)
Maciej Rapkiewicz	Board Member	.... (signature)

Person responsible for preparation of the consolidated financial statements:

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

Warsaw, 14 March 2017