Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Consolidated financial statements for the year ended on 31 December 2015 with auditor's opinion

Table of content

(in PLN thousand)

Consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 January - 31 December 2015	1 January - 31 December 2014 (restated) [1]
Gross written premiums	11	18,359,044	16,884,639
Reinsurer's share in written premiums		(366,702)	(349,912)
Net written premium		**17,992,342**	**16,534,727**
Change in net unearned premiums reserve		(607,471)	(105,357)
Net earned premiums		**17,384,871**	**16,429,370**
Revenue from commissions and fees	12	242,799	350,764
Net investment income	13	1,571,268	1,704,649
Net result on realization and impairment losses on investments	14	(223,239)	427,147
Net change in the fair value of assets and liabilities measured to fair value	15	391,248	515,111
Other operating income	16	803,432	537,633
Insurance claims and change in technical provisions		(12,282,925)	(11,733,228)
Reinsurers' share in claims, benefits and change in technical provisions		425,823	191,520
Net claims and benefits	**17**	**(11,857,102)**	**(11,541,708)**
Interest expense	18	(117,433)	(147,285)
Acquisition costs	19	(2,376,305)	(2,147,024)
Administrative costs	20	(1,657,878)	(1,527,699)
Other operating expenses	22	(1,222,276)	(907,740)
Operating profit		**2,939,385**	**3,693,218**
Share in returns of entities measured using the equity method	2.4.6.1, 34	4,348	(1,525)
Profit before tax		**2,943,733**	**3,691,693**
Income tax	25	(601,537)	(724,066)
Net profit, including:		**2,342,196**	**2,967,627**
- profit attributable to owners of the parent entity		2,342,355	2,967,731
- profit (loss) attributable to non-controlling interest		(159)	(104)
Net profit from continued operations attributable to owners of the parent entity		2,342,355	2,967,731
Net profit (loss) from discontinued operations		-	-
Basic and diluted weighted average number of ordinary shares in issue	24	863,523,000	863,519,490[2]
Basic and diluted profit (loss) per one ordinary share (in PLN)	24	2.71	3.44[2]

[1] Information stating the reason of restatement of data and its influence on statement of profit or loss has been presented in Note 5.1.2.

[2] Comparatives were restated, taking into consideration the new number of shares, after the split described in Note 43.1

(in PLN thousand)

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January - 31 December 2015	1 January - 31 December 2014
Net profit		2,342,196	2,967,627
Other comprehensive income	26	5,766	17,193
Amounts subject to subsequent transfer to statement of profit or loss		(3,165)	10,580
Measurement of available-for-sale financial instruments		2,492	8,475
Exchange differences from translation		(6,574)	2,287
Other comprehensive income of entities measured using the equity method		917	(182)
Amounts not subject to subsequent transfer to statement of profit or loss		8,931	6,613
Property reclassified from property, plant and equipment to investment properties		7,201	13,504
Actuarial gains and losses from remeasurements of defined benefit liabilities		1,730	(6,891)
Total net comprehensive income		**2,347,962**	**2,984,820**
- comprehensive income attributable to owners of the parent entity		2,348,136	2,984,916
- comprehensive income attributable to non-controlling interest		(174)	(96)

(in PLN thousand)

Consolidated statement of financial position

Assets	**Note**	**31 December 2015**	**31 December 2014** (restated) [1)]	**1 January 2014** (restated) [1)]
Goodwill	27	1,506,445	769,044	8,519
Intangible assets	27	1,393,168	868,692	308,726
Other assets	29	698,964	235,250	195,449
Deferred acquisition costs	30	1,154,742	712,066	609,819
Estimated subrogations and recoveries	31	114,229	127,262	129,950
Reinsurers' share in technical provisions	32, 40	1,096,852	753,115	526,605
Tangible assets	32	1,299,788	1,001,609	927,281
Investment properties	33	1,171,721	2,236,062	1,474,770
Entities measured using the equity method	34	54,065	66,311	48,595
Financial assets		89,305,847	56,759,976	55,085,728
Held to maturity	35.1, 36	17,370,126	19,983,689	18,859,902
Available for sale	35.2, 36	7,744,689	2,985,322	1,920,112
Measured at fair value through profit or loss	35.3, 36	20,648,403	19,096,484	19,904,176
Hedging derivatives	8.5.2	139,578	-	-
Loans	35.4, 36	43,403,051	14,694,481	14,401,538
Deferred tax assets	37	349,189	26,957	16,949
Receivables, including insurance receivables	36, 38	3,270,793	3,085,432	2,671,964
Current income tax receivables	39	67,295	368	34,895
Cash and cash equivalents	40	2,439,863	324,007	569,157
Assets held for sale	41	1,506,048	606,610	178,897
Total assets		**105,429,009**	**67,572,761**	**62,787,304**

[1)] Information stating the reason of restatement of data and its influence on the consolidated statement of financial position has been presented in Note 5.1.2.

(in PLN thousand)

Consolidated statement of financial position (cont.)

Equity and liabilities	**Note**	**31 December 2015**	**31 December 2014** (restated)	**1 January 2014** (restated)
Equity				
Equity attributable to owners of the parent entity	42			
Share capital	42.1	86,352	86,352	86,352
Other reserves	42.2	10,141,607	9,885,791	9,061,351
Unappropriated result		2,695,760	3,194,193	3,963,587
Retained earnings		353 405	226,462	3,963,587
Net profit		2,342,355	2,967,731	-
Non-controlling interest		2,255,188	1,292	16,341
Total equity		**15,178,907**	**13,167,628**	**13,127,631**
Liabilities				
Technical provisions	43	41,280,321	40,166,885	37,324,416
Provisions for employee benefits	44	117,398	120,070	123,380
Other provisions	45	108,109	191,206	192,906
Deferred tax liabilities	46	509,157	398,433	255,399
Financial liabilities	47	44,487,823	9,403,244	8,398,582
Other liabilities	48	3,678,011	3,819,511	3,311,618
Current income tax liabilities	49	69,283	53,770	53,372
Liabilities directly associated with assets qualified as held for sale	41	-	252,014	-
Total liabilities		**90,250,102**	**54,405,133**	**49,659,673**
Total equity and liabilities		**105,429,009**	**67,572,761**	**62,787,304**

[1)] Information stating the reason of restatement of data and its influence on the consolidated statement of financial position has been presented in Note 5.1.2.

(in PLN thousand)

Statement of changes in consolidated equity

Statement of changes in consolidated equity	Note	Share capital	Equity attributable to owners of the parent entity									Non-controlling interest	Total equity
			Other reserves						Unappropriated result		Total		
			Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note		42.1		42.2.1	42.2.2			42.2.3				2.3	
Balance as at 1 January 2015		**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**3,194,193**	**-**	**13,166,336**	**1,292**	**13,167,628**
Measurement of available-for-sale financial instruments		-		-	2,492	-	-	-	-	-	2,492	-	2,492
Other comprehensive income of entities measured using the equity method	34	-		-	871	-	45	1	-	-	917	-	917
Exchange differences from translation		-		-	-	-	-	(6,559)	-	-	(6,559)	(15)	(6,574)
Actuarial gains and losses from remeasurements of defined benefit liabilities	44	-		-	-	-	1,730	-	-	-	1,730	-	1,730
Property reclassified from property, plant and equipment to investment property		-		-	7,201	-	-	-	-	-	7,201	-	7,201
Total other net comprehensive income		**-**		**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**-**	**5,781**	**(15)**	**5,766**
Net profit (loss)		-		-	-	-	-	-	-	2,342,355	2,342,355	(159)	2,342,196
Total comprehensive income		**-**		**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**2,342,355**	**2,348,136**	**(174)**	**2,347,962**
Other changes, including:		**-**	**110**	**268,371**	**(18,430)**	**(44)**	**-**	**28**	**(2,840,788)**	**-**	**(2,590,753)**	**2,254,070**	**(336,683)**
Profit appropriation	42.1.1	-		248,262	-	(44)	-	-	(2,838,771)	-	(2,590,553)	-	(2,590,553)
Changes in PZU Group's composition and transactions with non-controlling interest	2.4.6.1	-		(388)	-	-	-	28	-	-	(360)	2,254,070	2,253,710
Sale of revalued property		-		20,447	(18,430)	-	-	-	(2,017)	-	-	-	-
Sale of own shares		-	110	50	-	-	-	-	-	-	160	-	160
At 31 December 2015		**86,352**	**-**	**9,947,292**	**240,677**	**22**	**(4,404)**	**(41,980)**	**353,405**	**2,342,355**	**12,923,719**	**2,555,188**	**15,178,907**

(in PLN thousand)

Statement of changes in consolidated equity (cont.)

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 from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note		42.1		42.2.1	42.2.2			42.2.3				2.3	
Balance as at 1 January 2014		**86,352**	**(110)**	**8,855,999**	**242,297**	**-**	**902**	**(37,737)**	**3,963,587**	**-**	**13,111,290**	**16,341**	**13,127,631**
Measurement of available-for-sale financial instruments		-	-	-	8,475	-	-	-	-	-	8,475	-	8,475
Other comprehensive income of entities measured using the equity method	34		-	-	-	-	(190)	8	-	-	(182)	-	(182)
Exchange differences from translation	-		-	-	-	-	-	2,279	-	-	2,279	8	2,287
Actuarial gains and losses from remeasurements of defined benefit liabilities	44		-	-	-	-	(6,891)	-	-	-	(6,891)	-	(6,891)
Property reclassified from property, plant and equipment to investment property		-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Total other net comprehensive income		**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**-**	**17,185**	**8**	**17,193**
Net profit (loss)		-	-	-	-	-	-	-	-	2,967,731	2,967,731	(104)	2,967,627
Total comprehensive income		**-**	**-**	**-**	**21,979**	**-**	**(7,081)**	**2,287**	**-**	**2,967,731**	**2,984,916**	**(96)**	**2,984,820**
Other changes, including:		**-**	**-**	**822,922**	**(15,733)**	**66**	**-**	**-**	**(3,737,125)**	**-**	**(2,929,870)**	**(14,953)**	**(2,944,823)**
Profit appropriation		-	-	800,257	-	66	-	-	(3,736,288)	-	(2,935,965)	-	(2,935,965)
Changes in PZU Group's composition and transactions with non-controlling interest		-	-	6,095	-	-	-	-	-	-	6,095	(14,953)	(8,858)
Sale of revalued property		-	-	16,570	(15,733)	-	-	-	(837)	-	-	-	-
At 31 December 2014		**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**226,462**	**2,967,731**	**13,166,336**	**1,292**	**13,167,628**

(in PLN thousand)

Consolidated cash flows statement

Consolidated cash flows statement	**Note**	**1 January - 31 December 2015**	**1 January - 31 December 2014** (restated)
Cash flows from operating activities			
Inflows		20,868,278	19,770,097
- inflows from insurance premiums		18,103,916	16,813,033
- inflows from investment contracts		141,088	374,467
- inflows from reinsurance commissions and share in reinsurers profits		23,504	5,801
- inflows from reinsurers share in claims		75,981	57,799
- inflows from claims representative services		196,358	185,909
- inflows from sale of units by investment fund		945,897	1,309,017
- other inflows from operating activities	50	1,381,534	1,024,071
Outflows		(19,596,595)	(17,994,884)
- reinsurance premiums		(336,090)	(281,562)
- commissions paid and profit sharing due to reinsurance inwards		(34,801)	(6,665)
- claims and benefits paid		(10,526,619)	(8,913,766)
benefits paid from investment contracts		(698,661)	(1,389,107)
- acquisition outflows		(2,049,302)	(1,792,914)
- administrative outflows		(2,228,149)	(2,043,079)
- interest payments		(210)	(367)
- income tax payments		(662,131)	(643,411)
- outflows from claims representative services		(495,393)	(463,856)
- outflows from purchase of units by investment fund		(560,757)	(574,396)
- other operating outflows	50	(2,004,482)	(1,885,761)
Net cash flows from operating activities		**1,271,683**	**1,775,213**
Cash flows from investment activities			
Inflows		645,441,193	656,131,136
- disposal of investment property		57,142	46,372
- inflows from investment property		245,718	161,875
- disposal of intangible assets and property, plant and equipment		6,025	11,456
- disposal of shares		4,877,722	5,684,627
- redemption of debt instruments		45,542,373	59,499,048
- inflows from buy sell-back transactions		312,776,047	322,415,856
- withdrawal of term deposits at credit institutions		192,354,486	230,591,875
- inflows from other investments		85,974,398	33,292,748
- interest received		1,413,031	4,273,948
- dividends received		53,325	85,347
- cash inflows due to sale of units and changes in consolidation scope		2,103,681	45,341
- other inflows from investments		37,245	22,643

(in PLN thousand)

Consolidated cash flows statement (cont.)

Consolidated cash flows statement	Note	1 January - 31 December 2015	1 January - 31 December 2014 (restated)
Outflows		(640,588,049)	(657,879,173)
- acquisition of investment property		(311,749)	(674,638)
- outflows for maintenance of investment property		(168,095)	(152,702)
- acquisition of intangible assets and property, plant and equipment		(320,910)	(257,336)
- acquisition of shares		(4,771,041)	(6,309,465)
- acquisition of shares in subsidiaries	2.4.6	(1,347,728)	(1,573,516)
- decrease in cash balance due to sale of units and changes in consolidation scope	2.4.1 2.4.3	(226,584)	(16,108)
- acquisition of debt instruments		(43,041,422)	(60,179,445)
- opening buy sell-back transactions		(312,954,479)	(322,391,282)
- acquisition of term deposits at credit institutions		(191,287,851)	(229,791,689)
- acquisition of other investments		(86,152,061)	(36,528,980)
- other investments outflows		(6,129)	(4,012)
Net cash flow from investment activities		**4,853,144**	**(1,748,037)**
Cash flows from financing activities			
Inflows		373,819,684	368,232,652
- inflows from loans		40,954	10,823
- inflows due to issuance of debt instruments		1,456,955	2,015,447
- opening sell buy-back transactions		372,321,775	366,206,382
Outflows		(377,853,538)	(368,542,449)
- dividends paid to owners of the parent entity	42.1.1.1	(4,058,594)	(1,468,133)
- repayment of loans		(126,389)	(39,815)
- inflows from sell buy-back transactions		(373,634,541)	(367,019,479)
- interest from loans		(4,602)	(14,718)
- interests from issued debt instruments		(28,771)	-
- other financial outflows		(641)	(304)
Net cash flow from financing activities		**(4,033,854)**	**(309,797)**
Total net cash flows		**2,090,973**	**(282,621)**
Cash and cash equivalents at the beginning of the financial year		324,007	569,157
Change in cash due to exchange differences		24,883	37,471
Cash and cash equivalents at the end of the financial year, including:	40	2,439,863	324,007
- not available for use		22,428	31,081

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 2015 and endorsed by the European Commission.

Entities of PZU Group maintain their accounting records in accordance with local GAAP:

- in Poland – in accordance with Polish Accounting Standards, with the exception of Alior Bank's Capital Group, Armatura Capital Group and CM Medica, maintaining their accounting records in accordance with IFRS;
- abroad – in accordance with IFRS, with the exception of Lithuanian companies maintaining their accounting records in accordance with Lithuanian accounting standards.

Consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Financial year

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2015 to 31 December 2015.

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 2016 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 thousand PLN.

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

The consolidated financial statements are presented in the Polish zloty (PLN). The Polish zloty is PZU Group's functional and presentation currency.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that the 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 2015, 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.

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

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

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

Elvita – Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.

EMC – EMC Instytut Medyczny SA.

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

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

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

Prof – Med – Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, the parent entity – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji Spółka Akcyjna.

PZU FIZ AN BIS 2 – PZU FIZ Aktywów Niepublicznych BIS 2.

PZU Lithuania – UAB DK PZU Lithuania.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

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

TFI – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

Forbearance – tool 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 2015 – annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2015, in accordance with PAS, signed by the Management Board of PZU on 14 March 2016.

PFSA – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, published and effective as at 31 December 2015 and endorsed by the European Commission.

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. The TCG was formed for a period of 3 years, from 1 January 2015 to 31 December 2017. PZU is the parent entity and the company representing the TCG in the above-mentioned TCG agreement.

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 (Journal of Laws of 2013, item 330, as amended) and the regulations issued thereunder.

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

RBNP – Reported But Not Paid.

CRR – regulation of the European Parliament and the Council No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms.

Solvency Margin Ordinance – ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee capital for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060, as amended).

Consolidated financial statements – consolidated financial statements of PZU Group in accordance with IFRS for the year ended on 31 December 2015.

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

Act on Insurance Activity – Act on Insurance Activity of 22 May 2003 (i.e. Journal of Laws of 2015, item 1206 as amended).

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

Act on Financial Instututions Tax – act of 15 January 2016 on the tax on certain financial institutions (Journal of Laws of 2016, item 68).

ZUS – Social Insurance Institution.

2. Structure of PZU Group

2.1 PZU

The 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 thousand)

2.2 PZU Group entities, associates and joint ventures

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
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 [1)]	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
A4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych [2)]	Warsaw	20.11.2015	100.00%	n/a	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB [3)]	Vilnius (Lithuania)	31.10.2014	99.98%	99.98%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga (Łotwa)	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 DK PZU Lithuania [4)]	Vilnius (Lithuania)	26.04.2002	0.00%	99.88%	Non-life insurance.
10	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://www.pzu.lt/
Consolidated subsidiaries – Alior Bank Capital Group						
11	Alior Bank SA [5)]	Warsaw	18.12.2015	23.96% [6)]	n/a	Banking services https://www.aliorbank.pl/
12	Alior Services sp. z o.o. [5)]	Warsaw	18.12.2015	23.96%	n/a	Other services excluding insurance and pension funds.
13	Centrum Obrotu Wierzytelnościami sp. z o.o. [5)]	Cracow	18.12.2015	23.96%	n/a	Trading in receivables.
14	Alior Leasing sp. z o.o. [5)]	Wrocław	18.12.2015	23.96%	n/a	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
15	Meritum Services ICB SA [5)]	Gdańsk	18.12.2015	23.96%	n/a	IT services.
16	Money Makers SA [5)]	Warsaw	18.12.2015	14.49% [7)]	n/a	Asset management and managing Alior SFIO subfunds. http://www.moneymakers.pl
17	New Commerce Services sp. z o.o. [5)]	Warsaw	18.12.2015	23.96%	n/a	Auxiliary operations.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
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%	The company does not conduct business operations.
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/pzu-zdrowie
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%	96.45%	Health care services.http://cmprofmed.pl/
29	Sanatorium Uzdrowiskowe „Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	98.58%	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%	98.82%	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. 8)	Płock	23.04.2015	100.00%	n/a	Health care services. http://rezo-medica.pl/
33	Centrum Medyczne Gamma sp. z o.o. 8)	Warsaw	08.09.2015	60.46%	n/a	Health care services. http://www.cmgamma.pl/
34	Nasze-Zdrowie sp. z o.o. 8)	Warsaw	26.08.2015	100.00%	n/a	Health care services. http://www.nasze-zdrowie.pl/
35	Medicus w Opolu sp. z o.o. 8)	Opole	30.09.2015	100.00%	n/a	Health care services. http://medicus.opole.pl/
36	Arm Property sp. z o.o.	Cracow	26.11.2014	100.00%	100.00%	Purchase and sales of property.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
Consolidated subsidiaries – other units - continued						
37	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Assistance and health care services.
38	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	The company does not conduct business operations.
39	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA w likwidacji	Warsaw	13.08.2004	100.00%	100.00%	The company does not conduct business operations.
40	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	The company does not conduct business operations.
41	Omicron Bis SA	Warsaw	28.08.2014	100.00%	100.00%	The company does not conduct business operations.
42	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	The company does not conduct business operations.
43	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
44	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	100.00%	The company does not conduct business operations.
Jednostki objęte konsolidacją - Armatura Capital Group						
45	Armatura Kraków SA	Cracow	07.10.1999	100.00%	100.00%	Distribution of products of Armatura Group, administration and management of the Armatura Group. http://www.grupa-armatura.pl/
46	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	Production and distribution of radiators and sanitary fixtures and fittings.
47	Armaton SA [9)]	Cracow	10.02.2009	n/a	100.00%	Use of free funds, development investments.
48	Aquaform SA [10)]	Środa Wlkp.	15.01.2015	100.00%	n/a	Manufacturing of bathroom fittings.
49	Aquaform Badprodukte GmbH [10)]	Anhausen (Niemcy)	15.01.2015	100.00%	n/a	Wholesale.
50	Aquaform Ukraine TOW [10)]	Zhytomyr (Ukraine)	15.01.2015	100.00%	n/a	Wholesale.
51	Aquaform Romania SRL [10)]	Prejmer (Romania)	15.01.2015	100.00%	n/a	Wholesale.
52	Morehome.pl sp. z o.o. [10)]	Środa Wlkp.	15.01.2015	100.00%	n/a	Retail sale via electronic channels.
Consolidated subsidiaries - investment funds						
53	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from the participants of the fund.
54	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	As above.
55	PZU FIZ Sektora Nieruchomości [11)]	Warsaw	01.07.2008	n/a	n/a	As above.
56	PZU FIZ Sektora Nieruchomości 2 [11)]	Warsaw	21.11.2011	n/a	n/a	As above.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital and % of voting rights directly or indirectly held by PZU		Scope of business and website
				31 December 2015	31 December 2014	
Consolidated subsidiaries - investment funds - continued						
57	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	As above.
58	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	As above.
59	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	As above.
60	PZU Sejf+	Warsaw	30.09.2015	n/a	n/a	As above.
61	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
62	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
63	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	As above.
64	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	As above.
65	PZU FIZ Akcji Focus	Warsaw	10.12.2015	n/a	n/a	As above.
Joint ventures in Armatura Capital Group						
66	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	50.00%	Execution of construction projects.
Associates						
67	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance services.
68	EMC Instytut Medyczny SA [12)]	Wrocław	18.06.2013	28.31% [13)]	28.58% [13)]	Health protection, R&D in medical sciences and pharmacy.

[1)] Information about the acquisition of Link4 is presented in Note 2.4.6.2.
[2)] Information about the establishment of TUW PZUW is presented in Note 2.4.2.
[3)] Information about the acquisition of Lietuvos Draudimas AB is presented in Note 2.4.6.3
[4)] Information about the sale of PZU Lithuania is presented in Note 2.4.1.
[5)] Information about the acquisition of Alior Banku SA along with its subsidiaries is presented in Note 2.4.6.1
[6)] 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 specified in2.4.6.1), PZU Życie and consolidated investment funds. The figure does not include shares acquired by PZU under tranche III of the transaction described in 2.4.6.1.
[7)] Company directly controlled by Alior Bank where it holds 60.49%. The Management Board of PZU stated that PZU Group exercises control over the company.
[8)] Information about the acquisition of Rezo-Medica sp. z o.o., Centrum Medyczne Gamma sp. z o.o., Nasze-Zdrowie sp. z o.o. and Medicus w Opolu sp. z o.o. is presented in Note 2.4.6.5.
[9)] Information about the marger of companies within Armatura Group is presented in Note 2.4.5.
[10)] Information about the acquisition of Aquaform SA along with its subsidiaries is presented in Note 2.4.6.4
[11)] As at 31 December 2015, the PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchorności 2 funds conducted investment operations through special purpose vehicles (included in the consolidation), whose number in particular funds amounted to: 24 and 11, respectively (31 December 2014: 39 and 13). A lower number of SPVs resulted from reorganization and simplification of operating structure, and not limiting operations itself.
[12)] Information about changing the involvement in EMC Instytut Medyczny SA is presented in Note 2.4.4.
% of voting rights held by PZU differs from the % of share capital and as at 31 December 2015 it amounted to 25.44% (25.41% as at 31 December 2014). The difference between the interest in voting rights and share capital results from the fact that non-controlling interest hold shares preferred as to voting rights.

(in PLN thousand)

But for the companies listed in the table, as at 31 December 2015, 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 position of PZU Group amounted to 0.

2.3 Non-controlling interest

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

Name of entity	31 December 2015	31 December 2014
Alior Bank [1]	70.78% [2]	n/a
Centrum Medyczne Gamma sp. z o.o.	39.54%	n/a
Proelmed	43.00%	43.00%
SU Krystynka	0.91%	1.42%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
Lietuvos Draudimas AB	0.02%	0.02%
AAS Balta	0.01%	0.01%
Prof-Med	0.00%	3.55%
Elvita	0.00%	1.18%
PZU Lithuania	n/a	0.12%

[1] Alior Bank ownes 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 SA (non-controlling interest at this entity amounted to 85.51%), New Commerce Services sp. z o.o.
[2] Value of non-controlling interest of Alior Bank was disclosed after taking into account tranche III in the purchase price allocation for Alior Bank as at the day of acquiring control. As at 31 December 2014, the carrying amount of non-controlling interest at Alior Bank was settled at PLN 2,249,609 thousand.

The below table presents consolidated financial data (at provisionally determined fair value) of Alior Bank Group included in the consolidated financial statements.

Assets	31 December 2015
Intangible assets	581,706
Other assets	109,378
Tangible assets	228,955
Financial assets	35,844,054
Available for sale	4,866,713
Measured at fair value through profit or loss	390,569
Hedging derivatives	139,578
Loans	30,447,194
Deferred tax assets	329,184
Receivables, including insurance receivables	484,862
Cash and cash equivalents	2,089,579
Assets held for sale	888
Total assets	**39,668,606**

(in PLN thousand)

Equity and liabilities	31 December 2015
Equity	
Issued share capital and other equity attributable to the owners of the parent entity	
Share capital	727,075
Other reserves	2,479,793
Unappropriated result	(28,413)
Non-controlling interest	1,240
Total equity	**3,179,695**
Liabilities	
Provisions for employee benefits	26,269
Other provisions	8,731
Financial liabilities	35,921,048
Current income tax liabilities	21,776
Other liabilities	511,087
Total liabilities	**36,488,911**
Total equity and liabilities	**39,668,606**

Due to the acquisition of Alior Bank along with its subsidiaries, from 18 December 2015 (the purchase price allocation and goodwill calculation prepared based on the data as of 31 December 2015) the data from the statement of profit or loss and other comprehensive income, as well as from cash flow statement, are not presented since they did not exert any effect on the consolidated financial statements.

In the period when PZU Group controlled Alior Bank, Alior Bank did not pay out dividends.

In 2014, there were no subsidiaries in PZU Group for which non-controlling interest would be material to PZU Group.

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

2.4.1. The sale of PZU Lithuania shares

On 2 February 2015, a share purchase agreement for the sale of PZU Lithuania shares was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of EUR 28,96 each, representing a total of 99.879% of the share capital of PZU Lithuania.

The share of sales was conditional on the meeting of the following conditions precedent:

- lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lithuania by the purchaser (the condition was met on 13 August 2015);
- consent of the Latvian and Estonian antitrust authorities or a written confirmation that such consent is not required (PZU received confirmations that such consent is not required on 25 May 2015 and 14 May 2015, respectively);
- consent of the Lithuanian Competition Council (On 7 April 2015, PZU was informed that this condition was fulfilled).
- completion of the process of separating assets and liabilities of PZU Lithuania related to the operations carried out by the branches of PZU Lithuania in Latvia and Estonia to PZU Group (the condition was met on 23 June 2015);
- consent of the Bank of Lithuania on the early repayment by PZU Lithuania of a subordinated loan granted to PZU Lithuania by PZU (the consent in question was granted on 15 July 2015 and the loan was repaid on 16 July 2015;
- consent of the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lithuania by the purchaser (on 14 May 2015, PZU was informed that this condition was fulfilled);
- waiver of the preemptive right by the minority shareholder of PZU Lithuania (holding 0.121% of the share capital) in relation to the shares of PZU Lithuania in favor of PZU (the condition was met on 30 September 2015);
- consent of the Lithuanian government commission for the purchase of the shares in PZU Lithuania by the purchaser or a written confirmation that such consent is not required (on 14 May 2015, PZU was informed that this condition was fulfilled).

Closing of the sale of shares of PZU Lithuania and a loss of control took place on 30 September 2015, and since that day the consolidation of PZU Lithuania has not been continued.

The payment for the shares of PZU Lithuania made on the date of closing the transaction amounted to EUR 65,966 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction: PLN 279,921 thousand), which included:

- EUR 54,000 thousand of the price offered, and
- EUR 11,966 thousand of the estimated amount of compensation for net assets (the difference between the estimated value of net assets and the notional value of net assets).

On 17 February 2016, the price of acquisition was adjusted by the difference between the estimated amount of compensation for net assets and the actual amount of compensation for net assets (determined on the basis of the closing balance sheet prepared by the buyer and accepted by PZU). As a result of the adjustment, the purchase price was lowered by EUR 349 thousand (in accordance with the NBP's exchange rate of 31 December 2015: PLN 1,488 thousand).

In addition, the price will be adjusted by 4 payments made every 6 months, each in the amount of 1.5% of the amount of excess capital calculated as the difference between the actual equity of PZU Lithuania determined in accordance with the requirements of the Bank of Lithuania and the required PZU Lithuania capital calculated in accordance with the provisions of law and regulations binding PZU Lithuania.

	Settlement of sale (PLN thousand)
Fair value of consideration received (in cash)	278,433
Value of net assets sold	(109,821)
Non-controlling interest	(3,111)
Exchange differences from translation transferred from equity	(18)
Sales result	**165,483**

The profit from the sale of PZU Lithuania shares is recognized in the consolidated statement of profit or loss under "Net result on realization and impairment losses on investments".

The reduction of cash balance of PZU Group by PLN 11,277 thousand is recognized under "decrease in cash inflows from sale of units and due to changes in the consolidation scope" in the consolidated cash flow statement.

2.4.2. Establishment of Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych

On 3 November 2015, PFSA approved the establishment of TUW PZUW, which was registered in the National Court Registered on 20 November 2015 and since that date has been subjected to consolidation.

PZU is the sole founder of TUW PZUW and held 100% of the share capital of TUW PZUW, i.e. 249,000 shares of TUW PZUW of nominal value of PLN 100 each. The share capital of TUW PZUW amounts to PLN 24,900 thousand. PZU also covered the organizational fund of TUW PZUW in the amount of PLN 950 thousand.

Hospitals that cooperate under the TUW PZUW model obtain a possibility to disperse risk as a part of mutual relations suited to the nature of a given group of medical companies, and thus decrease the expenses related to insurance premium. Acting in TUW PZUW as a founding member, PZU will grant to the hospitals, participants in TUW PZUW, support in active risk management and building recommendations on limitations to the risk incurred, e.g. by means of a comprehensive cooperation within medical risk assessment.

2.4.3. Changes in the scope of consolidation of investment funds

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

Due to the fact that PZU Group lost its control over PZU Fundusz Inwestycyjny Zamknięty Forte, the consolidation was ceased on 30 June 2015. It resulted in a reduction of cash balance of PZU Group by PLN 215,307 thousand (in "decrease in cash inflows from purchase of units and due to changes in the consolidation scope" line in the consolidated cash flow statement). After ceasing the consolidation of the investment fund, the participation units in fund of PZU Group are recognized in consolidated financial statements instead of the assets and liabilities of the investment fund.

Due to gaining control over the PZU Sejf+ fund, the fund has been subjected to consolidation since 30 September 2015. It resulted in an increase in cash balance of PZU Group by PLN 1,164 thousand (under "increase in cash balance from purchase of units and due to changes in the consolidation scope" of consolidated cash flows statement) in the consolidated cash flow statement. After the consolidation of the investment fund, its assets and liabilities are recognized in consolidated financial statements instead of the participation units in fund of PZU Group.

In addition, the following newly-established funds have been subjected to consolidation: PZU Fundusz Inwestycyjny Zamknięty Surowcowy (since 3 September 2015) and PZU Fundusz Inwestycyjny Zamknięty Akcji Focus (since 10 December 2015).

2.4.4. Acquisition of shares in EMC Instytut Medyczny SA

On 17 April 2015, PZU FIZ AN BIS 2 entered into a contract providing for the acquisition of 325,124 newly issued shares in EMC (series I) with the nominal value of PLN 4.00 per share and the issue price of PLN 15.80 per share. The total purchase price for the new shares amounted to PLN 5,137 thousand.

On 9 July 2015, the capital increase of EMC was registered, as a result of the issuance of 1,265,822 shares with a nominal value of PLN 4.00 per share and the issue price of PLN 15.80 per share. In accordance with the above mentioned final contract, PZU FIZ AN BIS 2 acquired 325,124 shares (constituting 25.685% of new issue) As a result of the capital increase, PZU FIZ AN BIS 2 has a total of 3,760,762 shares representing 28.31% of the share capital, which entitles it to 25.44% of votes at the General Meeting of Shareholders of EMC.

2.4.5. Combinations of entities under common control

On 26 March 2015, 27 March 2015 and 30 September 2015, an agreement of sale of CM Medica, Prof-Med and Elvita shares between PZU FIZ AN BIS 2 and PZU Zdrowie SA.

On 2 September 2015, the General Meeting of Shareholders of Armatura Kraków SA adopted a decision on the legal merger of Armatura Kraków SA (the acquirer) with Armaton SA (the acquiree), whose sole shareholder was Armatura Kraków SA. The acquisition took place by transferring all the assets of the acquiree to the acquirer.

Both mergers were registered in the National Court Register on 30 September 2015.

The above mentioned transactions did not affect the consolidated financial statements.

2.4.6. Business combinations

Business combination transactions are accounted for using the acquisition method in accordance with IFRS 3 "Business Combinations". Among others, this requires identifying the acquirer, determining the acquisition date, recognizing and measuring the identifiable assets acquired, liabilities assumed measured at fair value as at the acquisition date and any non-controlling interest in the acquiree, as well as recognizing and measuring goodwill.

Detailed accounting policies concerning the settlement of the acquisition transactions are presented in Note 5.4.

Acquisition of insurance companies is part of the development strategy pursued by PZU Group, with international expansion and strengthening the position of PZU in Poland at its core. The goodwill recognized in the consolidated financial statements is an outcome of the planned achievement of value added resulting from synergy in the area of operations, IT solutions, and offer for Clients. A strong position of the acquired companies on the local markets is another argument in favor of the recognition of goodwill. Moreover, in the case of Link4, as a result of using additional brand in Poland, it is planned to attract new Clients and perform services up-selling.

The purchase of shares in Alior Bank allowed PZU Group to grow in the new area outside of the traditional scope of insurance activity – in bank services. The goodwill recognized in the consolidated financial statements is an outcome of the fact that it is a dynamically growing entity, with a high degree of commercial and technological advancement, which will be used by PZU Group as a platform for the consolidation of the Polish banking sector. It is a crucial step in establishing a banking group operating within PZU Group.

Acquisition of entities rendering health care services (in 2015: Rezo-Medica sp. z o.o., Centrum Medyczne Gamma sp. z o.o., Medicus w Opolu sp. z o.o., Nasze Zdrowie sp. z o.o.) is aimed at complementing health insurance offered by PZU Group. Development of healh care services and health insurance offer s one of the main components of the PZU Group's strategy. Implementation of part of the services in own facilities boost the competitiveness of PZU Group at this market. The goodwill recognized in the consolidated financial statements is an outcome of the planned growth of this service segment and of the volume of services generated by health insurance, whilst improving rentability of these services due to retaining part of the margin in PZU Group.

2.4.6.1. Acquisition of Alior Bank

Under the preliminary share purchase agreement signed on 30 May 2015 concerning the sale of the shares of Alior Bank, PZU acquired 17,818,473 shares of Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A ("Seller 1") and 500,000 shares of Alior Bank from Alior Polska sp. z o.o. ("Seller 2"), 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.

Upon fulfilling the provisions stipulated in the share purchase agreement, the shares of Alior Bank were acquired by PZU in three installments:

- first installment: 6,744,900 shares of Seller 1 and 500,000 shares of Seller 2;
- second installment: 7,244,900 shares of Seller 1;
- III tranche: 3,828,673 shares of Seller 1.

Price per share amounted to PLN 89.25 and the acquisition cost of the shares amounted to PLN 1,634,924 thousand in total.

The transaction will be settled upon fulfillment of the following conditions precedent, which at the same time constitute conditions precedent to the implementation of individual installments (the first three points refer only to the first installment):

- lack of objection of PFSA regarding PZU's acquisition of shares in Alior Bank (on 6 October 2015, PFSA found no grounds to object to the acquisition);
- consent of the President of Office of Competition and Consumer Protection or the consent being considered granted (On 6 August 2015, PZU was informed that this condition was fulfilled);
- consent of the Ukrainian anti-thrust authority (on 2 September 2015, PZU was informed that the consent in question was granted);
- no violations of declarations and warranties made by the parties (the condition was met on 9 October 2015);
- lack of unauthorized services defined in the agreement, which have not been adequately compensated (the condition was met on 9 October 2015);
- lack of substantially negative change defined in the agreement (the condition was met on 9 October 2015);
- lack of infringement of the commitments agreed upon during the transitional period from the date of signing of the agreement until the date of the subsequent installment (the condition was met on 9 October 2015);
- Alior Bank's acquisition of the organized part of Seller 2's company, which includes the property listed in points a) – d) of resolution No. 27/2017 of the General Meeting of Shareholders of Alior Bank of 25 May 2015 (the condition was met on 31 July 2015).

On 12 October 2015, the acquisition of the first installment was settled, and on 18 December 2015 – the second installment transaction was finalized. Payment per each installment amounted to PLN 646,607 thousand (PLN 1,293,214 in total). In the period between 12 October 2015 and 18 December 2015, PZU Group did not control Alior Bank but had significant influence over it, as a result of which it was considered an associate. As a result of the acquisition of the second installment, PZU Group obtained control over Alior Bank, which therefore has been consolidated since 18 December 2015. Also, the following subsidiaries of Alior Bank have been consolidated: 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 SA, New Commerce Services sp. z o.o. Summary of control analysis has been presented in Note 6.1.1.1.

On 11 March 2016, the acquisition of the III tranche of Alior Bank's shares was settled. The payment for the III tranche amounted to PLN 341,709 thousand. As a result of acquiring three installments, PZU directly possesses as of 14 March

2016 18,318,473 shares of Alior Bank representing 25.19 % of Alior Bank's share capital and votes at the General Meeting of Shareholders of Alior Bank. In addition, through investment funds controlled by PZU, it indirectly held 4.0284 % of the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

The costs related to acquisition of Alior Bank shares attributable to statement of profit and loss amounted to PLN 2,307 thousand. Due to the fact that these costs were connected with the project ongoing at the same time, the disclosed amount is the best possibile estimation of their allocation to the transaction of acquisition of Alior Bank shares.

Provisional purchase price allocation for Alior Bank

Acquisition of significant influence

In the period between 12 October 2015 and 18 December 2015, Alior Bank was treated as an associate measured using the equity method. The results of this valuation are presented in the table below:

Acquisition of significant influence and Alior Bank measurement using the equity method	(PLN thousand)
Consideration transferred (tranche I)	646,607
Fair value of interest held as at the moment of acquiring significant influence	244,571
Share in provisional fair value of net identifiable assets of Alior Bank	470,290
Goodwill	**420,888**
Carrying amount as at the moment of acquiring significant influence	**891,178**
Share in Alior Bank net result for the period between 12 October and 18 December 2015	5,284
Share in Alior Bank other comprehensive income for the period between 12 October and 18 December 2015	871
Carrying amount as at the acquisition date and the cessation of the measurement using the equity method	**897,333**

Acquisition of control

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

The share of PZU Group in the financial profit of Alior Bank for this period have been recognized together with the the gains/ losses resulting from the equity method for the period from 12 October to 18 December 2015 and reported in "Share in net results of entities measured using the equity method" of the consolidated statement of profit or loss.

Due to the following facts:

- the price for the III tranche has been agreed and is not subject to changes irrespective of market conditions;
- the III tranche is irrevocably connected with the previous ones that give PZU Group control over Alior Bank;
- non-controlling interest attributed to the shares in the III tranche deos not meet the definition of equity component in accordance with IFRS 32 point 23;

PZU Group included also the III tranche in the settlement of the acquisition of Alior Bank by way of:

- including the consideration transferred for both the II and the III tranches in the calculation of goodwill – PLN 988,316 thousand;
- calculating the carrying amount of non-controlling interest on the assumption that the III tranche shares are owned by PZU (70.78%);
- recognizing the liability to make the payment for the III tranche in the amount of PLN 341,709 thousand.

During the goodwill calculation, the carrying amounts of assets and liabilities of Alior Bank have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company as assets.

To the date of the publication of these consolidated financial statements, the purchase price allocation for Alior Bank has not been completed. Reliable and accurate calculation of fair value requires a large volume of data and appropriate measurements. It made impossible to finnish this process in the short period of time between the acquisition date and the date of the publication of the consolidated financial statements. Therefore, PZU Group decided to include a provisional purchase price allocation, in which:

- as to the fair value of the loans portfolio, the fair value reported in consolidated financial statements of Alior Bank Group as at 31 December 2015 was used;
- the liability arising from unfavorable valuations of lease agreements, customer relations (other than included in the core deposits intangible ("CDI"));
- the analysis of the potential property, plant, equipment and intangible assets fair value measurement has not been finalized;
- valuation of off-balance sheet liabilities has not been reported.

The final settlement will be presented after the process of identifying and calculating the fair value of the acquired assets, liabilities and off-balance liabilities is completed, which should not take place later than the date of the publication of the interim condensed consolidated financial statements of PZU Group for the first half of 2016.

Provisional fair value of the acquired assets and liabilities at the acquisition date	(PLN thousand)
Intangible assets	281,706
Tangible assets	228,955
Financial assets	35,844,054
Other receivables	484,862
Cash	2,089,579
Other assets	439,450
New intangible assets identified during the acquisition, including:	300,000
- trademark	100,000
- customer relations	200,000
Total assets	**39,668,606**
Financial liabilities	35,921,048
Other liabilities	567,863
Non-controlling interest [1)]	1,240
Provisional fair value of net assets acquired	**3,178,455**

[1)] measured at share value in fair value of net identifiable assets

Goodwill calculation	(PLN thousand)
Consideration transferred (tranche II and III) – in cash	988,316
Value of non-controlling interest (a 70.78% share in fair value of Alior Bank net assets)	2,249,609
Acquisition-date fair value of the previously held equity interest	661,099
Provisional fair value of net identifiable assets of Alior Bank	(3,178,455)
Goodwill	**720,569**

An increase of cash balance of PZU Group by PLN 2,089,579 thousand 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 flow statement.

As at the day of acquiring control over Alior Bank, PZU Group performed remeasurement (in accordance with IFRS 3 point 32(a) (iii) and 42) of equity interest held at Alior Bank prior to the acquisition date to the fair value, and recognized the resulting loss in the statement of profit or loss under "Net result on realization and impairment losses on investments":

Amounts recognized in the statement of profit or loss	(PLN thousand)
Carrying amount of Alior Bank shares as at the acquisition date (measurement using the equity method as at the acquisition date)	897,333
Acquisition-date fair value of the previously held equity interest	661,099
One-off impact on statement of profit or loss resulting from the acquisition of Alior Bank	**(236,234)** [1)]

[1)] including PLN (175,834) thousand due to change of fair value of shares purchased under tranche I between the purchase date and the acquisition date of Alior Bank, which is 18 December 2015.

2.4.6.2. Final settlement of Link4 shares acquisition

On the basis of the share purchase agreement signed on 17 April 2014, PZU acquired from Royal & Sun Alliance Insurance plc (RSA) 111,354,305 registered shares in Link4 that represent 100% of share capital of Link4 and 100% of votes at the General Meeting of Shareholders of Link4 ("Link4 Shares") with a nominal value of PLN 1.00 each.

Closing of the acquisition of Link4 and obtaining control took place on 15 September 2014 and since that day Link4 has been subjected to consolidation. The payment for the shares of Link4 made on the date of closing the transaction amounted to EUR 93,886 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction – PLN 393,917 thousand).

On 11 March 2015, the final settlement of the transaction was prepared. Due to the difference between the final value of net assets and their notional value, RSA paid PZU the resulting difference in the amount of EUR 2,070 thousand. The final payment amounted to EUR 91,816 thousand (PLN 385,378 thousand, including PLN 6,897 thousand in settlements acquired between Link4 and RSA).

The settlement of the acquisition of shares of Link4 was accounted for on the basis of accounting data of the company prepared as at 31 August 2014. There were no significant differences in the accounting data between 31 August 2014 and 15 September 2014 (the acquisition date).

During the calculation of goodwill, the carrying amounts of assets and liabilities of Link4 have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company.

Fair value of the acquired assets and liabilities at the time of the acquisition of control	**Provisional settlement** (PLN thousand)	**Adjustments**	**Final settlement** (PLN thousand)
Intangible assets	8,552	-	8,552
Tangible assets	10,698	-	10,698
Financial assets	476,439	-	476,439
Receivables	65,354	-	65,354
Reinsurers' share in technical provisions	28,961	-	28,961
Other assets	26,634	-	26,634
New intangible assets identified during the acquisition, including:	117,266	-	117,266
- trademark	50,000	-	50,000
- present value of future profits	67,266	-	67,266
Total assets	**733,904**	**-**	**733,904**
Technical provisions	493,973	-	493,973
Liabilities	82,827	-	82,827
Share in fair value of the acquired net assets	**157,104**	**-**	**157,104**
Fair value of consideration transferred – in cash	393,917	(15,436) [1)]	378,481
Calculated goodwill	**236,813**	**(15,436)**	**221,377**

[1)] The reversal of PLN 15,436 thousand include a return made by RSA in the amount of EUR 2,070 thousand (PLN 8,539 thousand) and purchase price decreased by the value of acquired settlements between Link4 and RSA in the amount of PLN 6,897 thousand.

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

2.4.6.3. Final settlement of Lietuvos Draudimas AB shares acquisition

Pursuant to the share purchase agreement signed on 17 April 2014, Lietuvos Draudimas AB PZU acquired from RSA 805,432 ordinary registered shares in the company Lietuvos Draudimas AB, which represent 99.98% of share capital of Lietuvos Draudimas AB ("Lietuvos Draudimas AB shares") and 99.98% of votes at the General Meeting of Shareholders of Lietuvos Draudimas AB, with a nominal value of LTL 50.00 each.

Closing of the acquisition of Lietuvos Draudimas AB and obtaining control took place on 31 October 2014 and since that day Lietuvos Draudimas AB has been subjected to consolidation. The payment for the Lietuvos Draudimas AB shares made on the date of closing the transaction amounted to EUR 191,012 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction: PLN 807,598 thousand).

On 3 June 2015, the final settlement of the transaction was prepared. Due to the difference between the final value of net assets and their notional value, RSA paid PZU the resulting difference in the amount of EUR 279 thousand. The final purchase price amounted to EUR 190,733 thousand (PLN 806,446 thousand).

The settlement of the acquisition of Lietuvos Draudimas AB shares was accounted for on the basis of accounting data of the company prepared as at 31 October 2014.

During the calculation of goodwill, the carrying amounts of assets and liabilities of Lietuvos Draudimas AB have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognized by the company.

Fair value of the acquired assets at the time of the acquisition of control	**Provisional settlement** (EUR thousand)	**Adjustments**	**Final settlement** (EUR thousand)
Intangible assets	4,595	-	4,595
Tangible assets	11,066	-	11,066
Investment property	831	-	831
Financial assets	126,116	-	126,116
Receivables	23,454	-	23,454
Reinsurers' share in technical provisions	2,211	-	2,211
Other assets	7,889	-	7,889
New intangible assets identified during the acquisition, including:	58,700	-	58,700
- trademark	19,400	-	19,400
- customer relations	18,700	-	18,700
- present value of future profits	17,800	-	17,800
- broker relations	2,800	-	2,800
Total assets	**234,862**	**-**	**234,862**
Technical provisions	96,400	-	96,400
Liabilities	31,890	-	31,890
Non-controlling interest	27	-	27
Share in fair value of the acquired net assets	**106,545**	**-**	**106,545**
Fair value of consideration transferred – in cash	191,012	(279)	190,733
Calculated goodwill	**84,467**	**(279)**	**84,188**

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

2.4.6.4. Purchasing of Aquaform SA shares

On 15 January 2015, a share purchase agreement for the sale of Aquaform SA shares was concluded between Saniku SA and Shower Star B.V. (Sellers) and PZU's subsidiaries: Armatura Kraków SA and Armatoora SA (Buyers). Pursuant to that agreement, Armatura Kraków SA and Armatoora SA purchased 8,421,053 shares in the Aquaform SA company, with a nominal value of PLN 0.38 per share.

Under the share purchase agreements signed on 31 May 2015 and 14 May 2015, concerning the sale of shares of Aquaform SA, a subsidiary of PZU, Armatura Kraków SA acquired from non-controlling interest an additional portion of shares in the amount of 1,578,947 in Aquaform SA.

PZU has also become an indirect owner of Aquaform Badprodukte GmbH, Aquaform Romania SRL, Aquaform Ukraine TOW, and Morehome.pl sp. z o.o. – subsidiaries of Aquaform SA.

Purchase of Aquaform is connected with realization of strategy that consists in expansion of product segments offered by Grupa Armatura and acquisition of new outlets.

The purchase price of the controlling interest consists of a fixed price of EUR 5,300 thousand and an additional price which constitutes 6.5% of the total sales value exceeding EUR 24,000 thousand obtained by Aquaform SA on markets in Germany, Austria, Switzerland, France, the Netherlands and Luxembourg in the years 2015–2017.

The total purchase price for shares of non-controlling interest amounted to PLN 3,620 thousand. As per the sales budgets, the value of additional payment was estimated at PLN 150 thousands.

The total share of Armatura Kraków SA and Armatoora SA in the share capital of Aquaform SA amounts to 100%, which translates into 100% votes in the General Meeting of Shareholders.

Closing of the acquisition of Aquaform SA and obtaining control took place on 15 January 2015 and since that day Aquaform SA and its subsidiaries have been subjected to consolidation.

The settlement of the acquisition of shares of Aquaform SA was accounted for on the basis of accounting data of the company prepared as at 31 December 2014. There were no significant differences in the accounting data between 31 December 2014 and 15 January 2015 (the acquisition date).

Fair value of the acquired assets and liabilities at the time of the acquisition of control	**Final settlement** (PLN thousand)
Intangible assets	334
Tangible assets	2,123
Change in deferred tax assets	2,608
Receivables	13,275
Other assets	19,802
New intangible assets identified during the acquisition, including:	7,443
- trademark	6,120
- favorable contract	1,323
Total assets	**45,585**
Liabilities	12,302
Share in fair value of the acquired net assets	**33,283**
Fair value of consideration transferred – in cash	25,925
Gain on bargain purchase	**7,358**

Gain on bargain purchase has been recognized in the consolidated statement of profit or loss under "Other operating income".

2.4.6.5. Acquisition of shares in health care companies

Rezo-Medica sp. z o.o.

On 23 April 2015, CM Medica acquired 2,000 shares in Rezo-Medica sp. z o.o., representing 100% of the share capital of Rezo-Medica sp. z o.o. and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 500 each.

Since the acquisition date, which is 23 April, 2015 Rezo-Medica sp. z o.o. has been subjected to consolidation.

Centrum Medyczne Gamma sp. z o.o

On 29 July 2015, the Extraordinary General Meeting of Shareholders of Gamma adopted a resolution to increase the company's share capital by issuing 29,278 shares with a nominal value of PLN 50 each. All shares were acquired by PZU FIZ AN BIS 2 and the increase in share capital was registered on 8 September 2015. As a result of the issue, PZU's share in the share capital and votes at the General Meetings of Shareholders of Gamma increased to 54.95%.

On 25 November 2015, the Extraordinary General Meeting of Shareholders of Gamma adopted a resolution to increase the company's share capital by issuing 7,423 shares with a nominal value of PLN 50 each. All shares were acquired by PZU FIZ AN BIS 2 and the increase in share capital was registered on 2 December 2015. As a result of the issue, PZU's share in the share capital and votes at the General Meetings of Shareholders of Gamma increased to 60.46%.

Since the acquisition date, which is 8 September 2015, Gamma has been subjected to consolidation.

Nasze Zdrowie sp. z o.o.

On 26 August 2015, PZU Zdrowie SA acquired 152 shares in Nasze Zdrowie sp. z o.o., representing 100% of the share capital and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 329 each.

Since the acquisition date, which is 26 August 2015, Nasze Zdrowie sp. z o.o. has been subjected to consolidation.

Medicus w Opolu sp. z o.o.

On 22 September 2015, PZU Zdrowie SA acquired 13,412 shares in Medicus w Opolu sp. z o.o., representing 100% of the share capital of Medicus w Opolu sp. z o.o. and 100% of votes at the General Meeting of Shareholders, with a nominal value of PLN 100 each.

Since the acquisition date, which is 22 September 2015, Medicus w Opolu sp. z o.o. has been subjected to consolidation.

Purchase price allocation for health care companies

The settlement of the acquisition of shares in subsidiaries was carried out based on data of these entities collected on 30 April 2015 (Rezo-Medica sp. z o.o.), 31 August 2015 (Centrum Medyczne Gamma sp. z o.o. and Nasze Zdrowie sp. z o.o.), and 30 September 2015 (Medicus w Opolu sp. z o.o.). There were no significant differences in the accounting data between the data based on which the purchase price allocation was finalized and the data as at the respective acquisition dates.

During the calculation of goodwill, the carrying amounts of property, plant and equipment have been remeasured to fair value.

Fair value of the acquired assets at the time of the acquisition of control	Final settlement (PLN thousand)
Intangible assets	268
Tangible assets	9,488
Financial assets	14,841
Receivables	1,963
Change in deferred tax assets	1,241
Other assets	457
Total assets	**28,258**
Liabilities	17,298
Non-controlling interest	3,406
Share in fair value of the acquired net assets	**7,554**
Fair value of consideration transferred – in cash	27,607
Calculated goodwill	**20,053**

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

(in PLN thousand)

2.4.6.6. Financial data of the acquired entities

The following table presents financial data of the entities acquired in 2015 and included in the consolidated statement of profit or loss. The data have been prepared in accordance with IFRS and they are for the period in which the companies were controlled by PZU Group.

As a result of assumptions made as to the settlement of the purchase of Alior Bank on the basis of the data prepared as at 31 December 2015, the data from Alior Bank statement of profit or loss will be recognized in consolidated statement of profit or loss of PZU Group as of 1 January 2016. As a result, the table does not include Alior Bank data.

Consolidated statement of profit or loss	Aquaform SA	Rezo-Medica sp. z o.o.	Centrum Medyczne Gamma sp. z o.o.	Nasze Zdrowie sp. z o.o.	Medicus w Opolu sp. z o.o.
Net investment income	-	-	1	-	5
Other operating income	67,395	1,655	3,545	1,970	2,881
Interest expense	(100)	(26)	-	-	(2)
Other operating expenses	(66,353)	(1,390)	(4,100)	(1,699)	(2,529)
Operating profit (loss)	**942**	**239**	**(554)**	**271**	**355**
Gross profit (loss)	**942**	**239**	**(554)**	**271**	**355**
Income tax	(339)	(82)	104	(60)	(66)
- current portion	-	(27)	-	(60)	(66)
- deferred portion	(339)	(55)	104	-	-
Net profit (loss)	**603**	**157**	**(450)**	**211**	**289**
- profit (loss) attributable to owners of the parent company	603	157	(247)	211	289
- profit (loss) attributable to non-controlling interest	-	-	(203)	-	-

(in PLN thousand)

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

The following table presents incomes and profits 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.

Selected items from consolidated statement of profit or loss	1 January - 31 December 2015
Gross written premiums	18,359,044
Revenue from commissions and fees	790,541
Net investment income	3,756,752 [1)]
Net profit	**2,650,145**

[1)] including PLN 2,185,456 thousand of Alior Bank Group interest income

3. The shareholding structure

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

At 31 December 2015

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
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)] As per the current report no. 3/2016 on the list of shareholder who hold at least 5% of all votes at the Extraordinary Shareholders' Meeting PZU on 7 January 2016.

On 3 November 2015, the District Court of Warsaw, XII Business Division of the National Court Register, registered changes in the PZU's By-laws which include, among other things, lowering the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares in the share capital from 86,352,300 to 863,523,000. Additional information on the split of shares is presented in Note 43.1.

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	30,385,253	35.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	4,317,691	5.0001%
3	Other shareholders	51,649,356	59.8124%
Total		**86,352,300**	**100.00%**

Information on the number of shares included in the calculation of profits per share are presented in Note 24.

3.1.1. Transactions involving significant packages of PZU shares

In the period from 1 January 2015 to the date of signing the consolidated financial statements, there was no significant changes in the ownership structure of significant PZU's shares packages.

3.1.2. Highest-level parent entity of PZU

As at 31 December 2015 the State Treasury held 34.4427% of PZU shares giving the right to 34.4427% of votes at the General Meeting of Shareholders (based on the current report no. 3/2016 on the list of shareholder who hold at least 5% of all votes at the Extraordinary Shareholders' Meeting PZU on 7 January 2016). Therefore, there was no higher-level parent entity of PZU preparing its consolidated financial statements.

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 2015, the composition of the Management Board of PZU was as follows:

- Andrzej Klesyk – Chairman of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Tomasz Tarkowski – Member of the Management Board;
- Ryszard Trepczyński – Member of the Management Board.

On 16 March 2015, the Supervisory Board of PZU adopted a resolution appointing Andrzej Klesyk as the President of PZU's Management Board in its new term of office.

On 24 June 2015, at the request of the President of the Management Board of PZU, the Supervisory Board of PZU appointed the following Members of the Management Board in its new term of office:

- Przemysław Dąbrowski;
- Rafał Grodzicki;
- Dariusz Krzewina;
- Tomasz Tarkowski.

The Member was appointed for the common term of office, which began on 1 July 2015. The term covers three consecutive full financial years. The first full financial year of the term is 2016.

Board composition changes, referred to below, did not affect the course of the term.

On 1 September 2015, at the request of the President of the Management Board of PZU, the Supervisory Board of PZU appointed Witold Jaworski as a Member of the Management Board in its new term of office.

On 8 December 2015, Andrzej Klesyk resigned from the position of the President of the Management Board of PZU, effective from 9 December 2015. Also on 8 December 2015, Witold Jaworski resigned from the position of the Member of the Management Board of PZU, effective from 9 December 2015.

On 8 December 2015, the Supervisory Board of PZU entrusted Dariusz Krzewina with the temporary position of the President of the Management Board of PZU, effective from 10 December 2015 and ending with the appointment of the next President of the Management Board of PZU.

On 19 January 2016, Tomasz Tarkowski oraz Rafał Grodzicki resigned from the positions of Members of the Management Board of PZU, effective from 19 January 2016.

On 19 January 2016, the Company Supervisory Board appointed the following Members of the Management Board of PZU:

- Michał Krupiński,
- Roger Hodgkiss,
- Beata Kozłowska-Chyła,
- Robert Pietryszyn,
- Paweł Surówka.

Composition of the Management Board of PZU between 19 January 2016 and the date of signing the consolidated financial statements:

- Michał Krupiński – Chairman of the Management Board of PZU;
- Przemysław Dąbrowski – Member of the Management Board;
- Roger Hodgkiss – Member of the Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Dariusz Krzewina – Member of the Management Board;
- Robert Pietryszyn – Member of the Management Board;
- Paweł Surówka – Member of the Management Board (from 20 January 2016).

4.2 Composition of the parent entity's Supervisory Board

In the period from 1 January 2015 to 30 June 2015, the composition of the Supervisory Board of PZU was as follows:

- Aleksandra Magaczewska – Chairperson of the Board;
- Zbigniew Ćwiąkalski – Vice-Chairman;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

On 30 June 2015, the General Meeting of Shareholders of PZU appointed the following Members of the Supervisory Board for the new term of office:

- Zbigniew Ćwiąkalski (since 8 July 2015 – Chairman of the Board);
- Paweł Kaczmarek (since 8 July 2015 – Vice-Chairman of the Board);
- Dariusz Filar (since 8 July 2015 – Secretary of the Board);
- Zbigniew Derdziuk – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Aleksandra Magaczewska – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

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

Board composition changes, referred to below, did not affect the course of the term.

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

On the same day, the Extraordinary General Meeting of Shareholders of PZU appointed the following Members of the Supervisory Board: Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzeszcz, Maciej Zaborowski. The resolutions to dismiss and appoint Members of the Supervisory Board came into force as at the date of adoption.

Composition of the Supervisory Board of PZU between 7 January 2016 and the date of signing the consolidated financial statements:

- Paweł Kaczmarek – Chairman of the Board (from 19 January 2016);
- Marcin Gargas – Vice-Chairman of the Board (from 19 January 2016);
- Maciej Zaborowski – Secretary of the Board (from 19 January);
- Marcin Chludziński – Member;
- Eligiusz Krześniak – Member;
- Alojzy Nowak – Member;
- Jerzy Paluchniak – Member;
- Piotr Paszko – Member;
- Radosław Potrzeszcz – Member.

4.3 Directors of PZU Group

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

Directors at PZU Group from 1 January 2015:

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

As a result of the appointment of Rafał Grodzicki as a Member of the Management Board, on 21 July 2015 a resolution was passed to dismiss Rafał Grodzicki from the position of a Director of PZU Group, effective from 30 June 2015.

On 29 January 2016, Tobiasz Bury and Przemysław Henschke were dismissed from the positions of Directors of the Group and Tomasz Karusewicz was appointed as one. On 15 February 2016, Roman Pałac was also appointed as a Director of the Group.

Directors of PZU Group from 15 February 2016 to the date of signing of the consolidated financial statements:

- Tomasz Karusewicz;
- Roman Pałac;
- Sławomir Niemierka.

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 the 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 – voluntary application.

Changes in accounting policies upon initial application of IFRS are applied in accordance with transitional provisions included in the 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 thousand)

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 2015

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	Resolution endorsing a standard or interpretation	Description
IFRIC 21 "Levies"	17 June 2014 and later	634/2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the event resulting in the creation of an obligation to pay a public fee in a Business operations subject to a public fee, as specified in the relevant laws. In the case of the fees incurred by the companies of PZU Group, the obligation to pay a fee is recognized gradually, over time, as the revenue being the basis for the calculation is achieved. The exception to this are fees made by banks to the Bank Guarantee Fund. In accordance with the standpoint of the Polish Ministry of Finance, expressed in its letter dated 11 February 2015, a fee should not be recognized under costs as a one-off payment. Moreover, the Bank Guarantee Fund shares this standpoint. Therefore, the implementation of IFRIC 21 does not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2011-2013	1 July 2014	1361/2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting treatment in situations in which the freedom of interpretation was previously acceptable. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exemption for joint ventures; scope of paragraph 52 if IFRS 13 (net exposure exception) and clarifying the interrelationship of IFRS 3 and IAS 40 (additional services). The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2010-2012	1 July 2014	28/2015	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of "vesting condition"; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and liabilities; proportionate restatement of accumulated depreciation application in revaluation method and clarification on management personnel. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

(in PLN thousand)

Amendments to IAS 19 - Employee benefits - defined benefit programmes - employee contributions	1 July 2014	29/2015	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (for example, employee contributions that are calculated according to a fixed percentage of salary). The aforesaid change 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 European Commission ordinance:

Standard/Interpretation	Date of entry into force for periods beginning on	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 will result in change in the method of valuation. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments 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 does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IAS 16 and IAS 38 - an explanation 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 does not exert any significant effect on the consolidated financial statements of PZU Group.

(in PLN thousand)

Standard/Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendments to IFRS 2012-2014	1 January 2016	2343/2015	Amendments 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. Amendments 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 change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments 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 position, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment may result in minor modifications of the layout of basic tables in consolidated financial statements of PZU Group.
Amendment to IAS 27- Equity method in 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 amendment will not affect the consolidated financial statement of PZU Group.

(in PLN thousand)

Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 - Financial Instruments	24 July 2014	1 January 2018	The standard replaces IAS 39 and 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 risk management activities. As IFRS 9 and IFRS 4 Phase II concerning insurance contracts entered into force on different dates (the latter standard will enter into force no sooner than in 2020), it is now under consideration whether different approaches may be adopted so as to eliminate from the statement of profit or loss significant volatilities related to applying the changes in financial asset valuation at an earlier point than the ones related to the valuation of insurance contracts. The Council considers the following transition approaches (in the period between 1 January 2018 and the date of entry into force of the new IFRS 4): • transparent separation of the results from the difference in the valuation of financial assets related to insurance activity pursuant to IFRS 9 and IFRS 39 from the account and presenting thereof in other comprehensive income; • in the case of capital groups conducting both insurance activity and bank activity – the option to apply IFRS 39 to the valuation of all financial assets in consolidated financial statements when insurance activity is the dominant one (i.e. when insurance liabilities constitute at least ¾ of the liabilities of the capital group). If the insurance activity is not the dominant one, all financial assets in the consolidated financial statements have to be measured in accordance with IFRS 9; • financial assets related to insurance activity can be measured pursuant to IAS 39, while other financial assets can be measured pursuant to IFRS 9. After Alior Bank is included in consolidation, PZU Group will not meet the criterion allowing for the application of the second presented simplification. Due to the long lead time of entry into force of IFRS 9 and lack of the final shape of changes to IFRS 4 in scope of transitional arrangements, no estimates of the impact of IFRS 9 on the total income and equity of PZU Group were made.
IFRS 14 – Regulatory Deferral Accounts	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 change does not affect PZU Group.
IFRS 15 – Revenue from Contracts with Customers	28 May 2014 and changes of 11 September 2015	1 January 2018 [2)]	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

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
			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 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). Due to the long lead time of entry into force and 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.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
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 operating leases in the statement of financial position 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 and the recent publication of the new standard, the potential impact of adopting the new standard on comprehensive revenues and equity has not been yet estimated.
Amendments to IAS 7 – Disclosure initiative	29 January 2016	1 January 2017	The amendments include 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.
Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	The amendments clarify, among other things, that unrealized loses 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.
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associated entity 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 amendment will not affect the consolidated financial statement of PZU Group.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Exemptions from consolidation applied	18 December 2014	1 January 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 amendment will not affect the consolidated financial statement of PZU Group.

[1)] European Commission put on hold the approval process by the time the final version of the standard has been published.
[2)] On 28 April 2015, IASB voted to postpone the date of entry into force by one year, i.e. until 1 January 2018.

Summing up, PZU Group is of the opinion that the introduction of the aforementioned standards and interpretation will not significantly impact the accounting policies applied by PZU Group, save for IFRS 9 and 15, impact of which 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 of presentation of cash flows from outstanding contributions of fund members of some investment programs

In order to faithfully reflect the economic content, cash flows in suspense accounts including outstanding contributions of fund members of PPE (employee pension plans), IKE (individual pension accounts) and PI (investment plans) are required to be offset in the consolidated financial statements. Instead of presenting them separately as "Other inflows from operating activities" and "Other operating outflows", the cash flows are recognized in these positions by compensation (per account balance).

5.1.2.2. Rearrangements of the consolidated statement of profit or loss and the consolidated statement of financial position

In order to recognize the financial data of Alior Bank Group, which has been subjected to consolidation since 18 December 2015, in the consolidated financial statements of PZU Group the layout of the consolidated statement of profit or loss and the consolidated statement of financial position has been rearranged.

In the consolidated statement of profit or loss:

- A new "Interest expense" line has been added, where interest expense from term deposits and current accounts, sell buy-back transactions or issued debt instruments are recognized, before in the line "Borrowing costs". This item includes also interest expense from investment contracts with guaranteed and fixed terms and conditions, recognized before in "Change in measurement of investment contracts" line.
- The line "Change in measurement of investment contracts" has been removed and the amounts recognized in it have been transferred, depending on the method of contract valuation as per effective interest rate or fair value, to "Interest expense" and "Net change in the fair value of assets and liabilities measured at fair value".
- The line "Borrowing costs" has been removed and the interest expense recognized in it have been transferred to "Interest expense", while exchange differences to "Net investment income".

In order to increase transparency of the consolidated statement of financial position:

- The breakdown of technical provisions has been removed.
- The items relating to investment contracts have been removed – the amounts associated with investment contracts are presented in an item "Financial liabilities".
- The items "Derivatives" and "Liabilities arising from the issue of own debt instruments" have been removed – the related amounts previously recognized in these lines are presented in a new item "Financial liabilities".
- A new item, "Financial liabilities", has been added – it includes, among other things, derivatives, investment contracts, liabilities to participants of consolidated investment funds, liabilities to banks and clients from deposits, liabilities arising from issue of debt instruments, presented in detail in Notes.

Moreover, the items of consolidated statement of financial position have been regrouped so as to better reflect the liquidity criterion.

(in PLN thousand)

5.1.2.3. Effect of the changes on the consolidated financial statements

The effect of applying the aforementioned changed on the items of consolidated statement of financial position, the consolidated statement of profit or loss and the consolidated cash flow statement is presented in the tables below.Assets	31 December 2014 *(approved)*	Adjustment	Note	31 December 2014 *(restated)*	1 January 2014 *(approved)*	Adjustment	Note	1 January 2014 *(restated)*
Goodwill	785,663	(16,619)	2.4.6.2 2.4.6.3	769,044	8,519	-		8,519
Receivables, including insurance receivables	3,068,813	16,619	2.4.6.2 2.4.6.3	3,085,432	2,671,964	-		2,671,964
Total assets	**67,572,761**	**-**		**67,572,761**	**62,787,304**	**-**		**62,787,304**

Equity and liabilities	31 December 2014 *(approved)*	Adjustment	Note	31 December 2014 *(restated)*	1 January 2014 *(approved)*	Adjustment	Note	1 January 2014 *(restated)*
Total equity	**13,167,628**	**-**		**13,167,628**	**13,127,631**	**-**		**13 127 631**
Liabilities								
Investment contracts	1,108,107	(1,108,107)	5.1.2.2	item deleted	2,121,037	(2,121,037)	5.1.2.2	item deleted
- with guaranteed and fixed terms and conditions	520,840	(520,840)	5.1.2.2	item deleted	1,250,492	(1,250,492)	5.1.2.2	item deleted
- unit-linked	587,267	(587,267)	5.1.2.2	item deleted	870,545	(870,545)	5.1.2.2	item deleted
Financial liabilities	-	9,403,244	5.1.2.2	9,403,244	-	8,398,582	5.1.2.2	8,398,582
Derivative instruments	625,844	(625,844)	5.1.2.2	item deleted	237,749	(237,749)	5.1.2.2	item deleted
Liabilities arising from the issue of own debt instruments	2,127,527	(2,127,527)	5.1.2.2	item deleted	-	-		item deleted
Other liabilities	9,361,277	(5,541,766)	5.1.2.2	3,819,511	9,351,414	(6,039,796)	5.1.2.2	3,311,618
Total liabilities	**54,405,133**	**-**		**54,405,133**	**49 659 673**	**-**		**49,659,673**
Total equity and liabilities	**67,572,761**	**-**		**67,572,761**	**62 787 304**	**-**		**62,787,304**

(in PLN thousand)

Selected items from consolidated statement of profit or loss	1 January - 31 December 2014 *(approved)*	Adjustment	Note	1 January - 31 December 2014 *(restated)*
Net investment income	1,793,838	(89,189)	5.1.2.2	1,704,649
Net change in the fair value of assets and liabilities measured at fair value	512,533	2,578	5.1.2.2	515,111
Interest expense	-	(147,285)	5.1.2.2	(147,285)
Change in measurement of investment contracts	(14,031)	14,031	5.1.2.2	-
Operating profit	**3,913,083**	**(219,865)**	**5.1.2.2**	**3,693,218**
Borrowing costs	(219,865)	(219,865)	5.1.2.2	item deleted
Gross profit	**3,691,693**		5.1.2.2	**3,691,693**

Selected items from consolidated cash flows statement	1 January - 31 December 2014 *(approved)*	Adjustment	Note	1 January - 31 December 2014 *(restated)*
Cash flows from operating activities	,	,		,
Inflows	20,817,079	(1,046,982)	5.1.2.2	19,770,097
- other inflows from operating activities	2,071,053	(1,046,982)	5.1.2.2	1,024,071
Outflows	(19,041,866)	1,046,982	5.1.2.2	(17,994,884)
- other operating outflows	(2,932,743)	1,046,982	5.1.2.2	(1,885,761)
Net cash flows from operating activities	**1,775,213**	-		**1,775,213**
Total net cash flows	**(282,621)**	-		**(282,621)**

5.2 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2015 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 consolidated statement of financial position, 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 intragroup transactions within PZU Group are eliminated in full.

The financial statements of the parent entity and its subsidiaries used in preparation of the consolidated financial statements are prepared for the same reporting period.

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 Note 5.3.

(in PLN thousand)

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 2015	1 January – 31 December 2014	31 December 2015	31 December 2014
EUR	4.1848	4.1892	4.2615	4.2623
LTL	n/a	1,2133	n/a	1.2344
UAH	0.1722	0.2637	0.1622	0.2246

5.4 Acquisition method

The acquisition of subsidiaries by PZU Group is accounted for using the acquisition method in accordance with IFRS 3 **"**Business Combinations**"**.

In the case of acquisition of an entity, 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 a proportional share in fair value of identifiable net assets of the acquiree.

Goodwill

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;
- acquisition-date fair value of the equity interest previously held by PZU Group;

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

In the measurement period, PZU Group may retrospectively adjust provisional amounts 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 the amounts recognized as at the aforementioned date. Pursuant to IFRS 3 point 45, the measurement period shall not exceed one year after the acquisition date.

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 multi-period excess earnings method (MEEM) 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's occurrence is estimated using statistical and actuarial methods, whereas the cash flow value results from relevant provisions of insurance contracts and actuarial analysis.
- customer relations concerning deposit clients (core deposit intangible, CDI) – as a current value of the difference between the borrowing costs of deposits 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 deposits. The value of a CDI is measured with the favorable source of funds method, being a derivative of the expense and income methods. In this method, forecasts are made for the retention level of deposit accounts (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 minimum reserves, 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 x β + SP + SR, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematical risk borne by the equity holders, including the operational and financial risks related to a given type of activity, SP – low capitalization premium, SR – specific premiums.

Tangible assets

Property are measured using the income method, on the assumption that the acquirer pays the price the rate of which is dependent on the discounted value of achievable cash flows.

Other plant, property and equipment is measured using comparative or replacement value method.

Technical provisions

The value of technical provisions is measured in accordance with the acquiree carrying amount. In accordance with IFRS 4, the difference between fair value and the carrying amount is disclosed as intangible assets (present value of future profits).

5.5 Goodwill

Goodwill, with the initial value determined using a manner described in Note 5.4, 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) and comparing it with their carrying amount (including the allocated goodwill). The tested CGU cannot be larger than operating segment. Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

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 position.

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 has been presented in Note 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 CDI), broker relations, future profits from concluded insurance contracts, etc.

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

(in PLN thousand)

- 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 10 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 Tangible assets

Property, plant and equipment are recognized at cost less any accumulated depreciation and impairment losses.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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 is carried out together with a test for adequacy of provisions, as described in Note 5.18.3. 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 Acquisition costs 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, acquisition costs are deferred over time, in accordance with the rules laid down in Note 5.9.1 and 5.9.2

Deferred acquisition costs capitalized in the statement of financial position, 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 indirectly related to sales processes which cannot be qualified as indirect 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 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 Salvages and subrogations in non-life insurance

In the case of some classes (types) of non-life insurance, having paid claims or benefits, the insurer may assume claims against third parties (subrogations) or property rights to the insured property (salvages).

Salvages are presented in the statement of financial position under "Other assets" and their fair value estimated as at the obtaining date reduces the claims and benefits paid in the given period.

Estimated salvages and subrogations are measured using the actuarial methods (expected future value of refunds due to assumption of claims against third parties and assumption of the right to the insured property) and are recognized in the statement of financial position under "Estimated salvages and subrogations".

Estimation of future subrogations and salvages is based on annual triangles of received subrogations and salvages. The value of future subrogations and salvages is calculated with the generalized Chain Ladder method, broken down by the years during which losses were incurred.

Estimated values of salvages and subrogations, recognized in the accounting records in the given period, reduce the costs of the increase of claims technical provisions for that period.

5.11 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 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 cost increased by transaction costs. Subsequently, they are measured at fair value, in accordance with the rules described in Note 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 income" 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 property, plant and equipment to investment property".

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

5.12 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.

5.13 Financial instruments

Recognition and classification

Financial assets and liabilities are recognized in the statement of the financial position 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 the categories determined by IAS 39 and they 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 are recognized separately under "Net investment income" 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 Notes 5.13.1 - 5.13.4.

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 statement of financial position

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 position;
- 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 position;
- 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 position.

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

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

5.13.1. 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".

5.13.2. Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not listed in 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 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 in an active market;
- granted loans;
- loan receivables from clients;
- insurance receivables (including reinsurance);
- other receivables.

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

Due to their nature, insurance receivables 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 Note 6.2.2.4).

The result of measurement of loans and other receivables are recognized under "Net investment income".

5.13.3. Financial assets available for sale

Financial instruments 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 rules described in Note 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 a 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".

5.13.4. 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 resold 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 Note 10.1. The effects of a change in the measurement of financial instruments measured at fair value, including interest, and changes of value of liabilities arising from 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 Note 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."

5.13.5. 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 all conditions specified in IAS 39 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 planned 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 apply hedge cash flows accounting.

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 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.

5.13.6. Financial liabilities other than ones measured at fair value

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

- liabilities to banks and clients from term deposits and current deposits;
- debt instruments issued by PZU Group
- investment contracts with guaranteed and fixed terms and conditions;
- sell buy-back transactions.

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

5.13.7. 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.

In the case of 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 debtor (for economic or legal reasons resulting from financial difficulties of the debtor) which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- 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 debtors' 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 debtor's solvency;
- significant or prolonged decrease in the fair value of an investment in an equity instrument below the cost (additional information presented in Note 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.

Impairment indicators concerning loan exposures may be divided into indicators related to:

- client, including:
  - individual client – personal bankruptcy, death, lack of information on the client's place of residence, client's financial problems;
  - business client – resolution, 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 individually significant 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 group 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 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 collectively assessed.

In the case of impairment indicators for 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 – must not be reversed;
- in the case of debt instruments – 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 have been presented in Note 6.2.2.

5.14 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.

5.15 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.

5.16 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.

5.17 Equity

5.17.1. Share capital

Share capital is recognized in the amount specified in the parent entity’s by-laws and registered in the National Court Register.

5.17.2. Treasury shares

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

5.17.3. Supplementary capital

Under "Supplementary capital", the following are recognized:

- effect of profit distribution, in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (Journal of Laws of 2013, item 1030, as amended) and the By-laws of PZU Group entities;
- •capital resulting from sale of investment property which was earlier reclassified from property, plant and equipment in accordance with rules described in Note 5.11;
- difference between decrease of the value of non-controlling interest and fair value of consideration transferred in the transactions of acquiring non-controlling interests at subsidiaries.

5.17.4. Revaluation reserve

"Revaluation reserve" includes the effects of:

- measurement of financial assets classified as available for sale;
- measurement of the value of property to their fair value as at the date of their reclassification from property, plant and equipment to investment property;
- measurement of the effective part of hedging instruments;

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

5.17.5. Actuarial gains and losses from remeasurements of defined benefit liabilities

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).

5.17.6. Exchange differences from translation

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

5.17.7. Unappropriated result

"Unappropriated result" includes:

- previous year net profit which has not been distributed by the Annual 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 the given company.

5.17.8. 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 the subsidiary.

5.18 Insurance contracts

5.18.1. Gross written premium, unearned premium reserve and unexpired risk reserve

5.18.1.1. 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 acquisition expenses (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 general amount of 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.

5.18.1.2. 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.

5.18.2. Claims and benefits paid and technical provisions

5.18.2.1. 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 costs 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 provisions

The outstanding claims provisions include:

- 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 costs.

RBNP is determined based on an individual approach by claim handling units or, if obtained information disallows determining 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 impact its amount by individual assessment or estimated losses and claims.

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 claim handling costs for claims reported is calculated on a case-by-case basis for each claim by operating units, whereas for claims incurred but not reported is calculated using generalized Chain Ladder, based on loss triangles for the year of the claim.

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 costs are recognized at the nominal value, i.e. they are not discounted.

Provisions for the capitalized value of annuities

The 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 does is lower than the predetermined percentage of the current value of average salary between 1960 and 1990.

5.18.2.2. 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 costs and a change in outstanding claims provisions.

Costs of paid claims and benefits

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 based on actuarial methods in the following way:

- group employee insurance and individually continued insurance – the provision is based on the prospective actuarial method which consists in determining a provision for each insurance contract separately, based on statistical data. It corresponds to the present value of the claims expected in relation to insurance protection granted, less the present value of future premiums;
- unit-linked technical provision – the provision is created to cover present benefits related to the insurance coverage over the cash accumulated in the fund, according to individual types of insurance, in line with their general terms and conditions. The amount corresponds to the portion of payments imposed due to the insurance coverage attributable to future financial years;
- other insurance – based on the prospective actuarial method, individually for each insurance contract, corresponding to the difference between the present value of guaranteed benefits and the present value of premiums due under the insurance contracts.

Unit-linked technical provision

Unit-linked technical provision is measured at the amount equal to the fair value of shares in the insurance fund as at the end of the financial year.

Outstanding claims provisions

Outstanding claims provisions are 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 provisions include a claims handling provision.

Provisions for bonuses and rebates for the insured

The provision corresponds to the expected profit sharing for the insurer recognized as at the end of the financial year, which will be granted following the end of the settlement period.

Technical provisions – life insurance

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;

- In 1992, PZU transferred old portfolio policies to PZU Życie.
- In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, which resulted in the investment income being below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie partly revalued the old portfolio policies. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective of obtaining higher claims. PZU Życie creates a provision for revaluation of claims from the old portfolio, which may result from future disputes (court cases and settlements).
- 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 – this provision is related to the projected decline in profitability of insurance fund investments for individual life insurance, individual policies with an increasing sum insured and premium, group Firma insurances and annuity insurances. 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
  - the amount of mathematical provisions calculated in line with the valid regulations for creating provisions with the original technical rate applied for other product pricing.

5.18.3. 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 Liability Adequacy Tests for life insurance products, 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 creation of unexpired risks reserve in non-life insurance described in Note 5.18.1.1 is in line with the minimum requirements of Liability Adequacy Test described in point 16 of IRFS 4.

Life insurance

As at the end of each year, the technical provisions recognized in the consolidated financial statements are compared with the current 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 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 costs. 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 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.

5.18.4. Reinsurers' share

The reinsurer’s share in written 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.

5.19 Provisions for employee benefits

5.19.1. Defined contribution plans

Social security contributions

PZU Group entities are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. 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 contributions to Zakładowy Fundusz Świadczeń Socjalnych [Social Benefits Fund]. PZU Group entities are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

Specific contributions to the pension plans are charged to the statement of profit or loss for a relevant period.

5.19.2. Defined benefit plans

5.19.2.1. Provisions for retirement benefits

Pursuant to the Labor Code of 26 June 1974 (Journal of Laws of 2014, item 1502, as amended), the employees of the PZU Group's 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.

The costs of retirement benefits estimated using 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 concerning assets held for sale has been presented in Note 5.17.5.

5.19.2.2. Provisions for death benefits

Pursuant to the Labor Code employees of PZU Group entities with registered offices located in Poland are entitled to death benefits. In case of death of an employee during their employment or at the time of receiving benefit as a result of inability to work due to sickness, the family is entitled to death benefits depending on the employee's duration of employment at PZU Group which is an equivalent of 1 to 6-month salary.

Liabilities due to survivor benefits recognized in the statement of financial position are measured at the current value of discounted cash flows.

5.19.3. Costs of paid annual leave

The employees of PZU Group entities are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labor law (in Poland – the Labor Code). In accordance with IAS 19, 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.

5.20 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).

5.21 Recognition of revenue

Recognition of revenue due to insurance contracts has been described in Note 5.18.1.

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 presented under "Net investment income". The income includes in particular:

- fees on premiums transferred by ZUS to OFE PZU – in the amount specified in the By-laws of OFE PZU and in line with the limits stipulated in the Pension Funds Act;
- management fees specified in the By-laws of OFE PZU – in accordance with the limits specified in the Pension Funds Act;
- other fees determined in the By-laws 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 in the "Revenue from commissions and fees" line.

5.22 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.

5.23 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 statement 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 Note 5.1.

6.1 Judgments made

6.1.1. Consolidation principles

6.1.1.1. Judgments in determining PZU has control

In accordance with point 7 of IFRS 10, PZU Group assumes that it has control only when it 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 order to determine whether PZU Group has the exisiting rights which are sufficient to exercise power, i.e. the current ability to direct the relevant activities, PZU Group analyses i.e.:

- 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;
- are the key personnel of the entity or members of the management body of the entity where the investment was made related 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.

Following the purchase of the II tranche of Alior Bank shares, under the transaction specified in 2.4.6.1, PZU Group performed control analysis and determined that:

- it holds a total of 23.9574% of Alior Bank shares (and after inclusion of potential voting rights resulting from irrevocably mandatory purchase of the III tranche – 29,2232%) that entitles it to the same number of votes at the General Shareholders' Meeting of Alior Bank;
- only three shareholders own interests of over 5%, and the rest of shareholding is fragmented and a large number of entities would have to act together to outvote PZU;
- it would hold a majority of votes at the majority of general meetings (as a result of an analysis of attendance and schedule of votes at Alior Bank general meetings in the years 2013-2015);
- upon PZU Group's request, a member of the Alior Bank management board was appointed who previously served as a member of the PZU Management Board, as well as two members to the Alior Bank supervisory board who are key managers at PZU;
- PZU Group does not have knowledge of potential agreements concluded between other shareholders of Alior bank;
- it undertook investment obligations towards Alior Bank, due to which its exposure to variability of Alior Bank's financial results is disproportionately greater that its voting rights.

In the light of the above prerequisites, it was stated that, starting from 18 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 is equal to or exceeds 20%, whereas the determination of the so understood total share does not take into consideration 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 volatility 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 position as financial assets by type and portfolio classification, while the liability related to the net assets of the fund held by third-party investors – as "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 the second stage of IFRS 4 carried out by IASB, the Group continues to apply insurance contract accounting 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 products from PZU Group's offer that do not transfer significant insurance risk (they include 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), which means 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 and 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 were identified which would provide for the 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 IFRS4, the investment component is not unbundled.

6.1.5. Unrecognized deferred tax assets

PZU Group applies the prudence principle and recognizes deferred tax assets resulting from tax losses of PZU Group entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group entities is presented in Note 33.

6.2 Estimates and assumptions made

6.2.1. Fair value

Assumptions applicable for determining the fair value of assets have been presented in Note 10.

6.2.2. Impairment

6.2.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Note 28 (for subsidiaries) and Note 34 (for the entities measured using the equity method).

6.2.2.2. Financial instruments measured at amortized cost

The assessment is made for all loans exposures (groups of loans exposures) in order to identify objective evidence for impairment. It is made in accordance with the most recent data and 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), 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 was 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 recoveries 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 is recognized in the consolidated statement of profit or loss under "Net result on realization and impairment losses on investments".

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

Impairment losses on equity instruments listed 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:

- the negative difference between the present value and the cost or the amount revalued (by a previous impairment loss) represents at least 30% of the cost or the amount revalued;
- the market value of the asset as at the end of each of the 12 consecutive months is lower than the cost or the amount revalued (by a previous impairment loss).

Impairment losses are not recognized if it is concluded that the aforesaid events may be reversed within 6 months of the end of the financial year or there are any other indications that the decreases may be temporary in nature.

6.2.2.4. Receivables from policyholders

Receivables from policyholders 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 total, or if the amount has been deemed undue. 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 a collective assessment of impairment of receivables due from policyholders 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 irrecoverability ratios of mature receivables that are determined on the basis of a historical analysis.

The value of receivables that will probably become mature on the basis of a historical analysis of the share of overdue receivables is determined for non-mature 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 irrecoverability 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 with the help of models which are created and updated on the basis of data on debt collection in particular groups sharing similar characteristics. Such estimates are created on the basis of historical data concerning defaults on loans and receivables in various 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% was used for all annuities, both as at 31 December 2015 and 31 December 2014.

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 has been presented in the provision development triangles, as well as an analysis of sensitivity of the net profit/loss and equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in Note 8.5.1.1. Methodologies used to calculate the IBNR provision and the old portfolio provision are described in Note 5.18.2.1.

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

The amount of life insurance provision equals to the value of liabilities related to 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 provision calculation 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 insured 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 calculation of life insurance provision are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product. The assumptions used in calculation of life insurance provision are calculated 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.

Incidence of events covered by insurance

Group insurance by employers and individually continued and family products cover both the insured individuals, referred to as "the key insured", and their family members. As the Company had only access to data on the main insured covered by continued insurance and due to a lack of complete information on the age, sex, marital and family status of the insured in group insurance, in 2004 a statistical survey was conducted with regard to the age structure and sex of the individuals covered by group insurance, as well as their family members. The aforementioned survey also served as the basis for the assumptions regarding the family structure of the individuals covered by individually continued insurance.

The assumptions made on the basis of the statistical survey for the purpose of determining the group insurance provisions, in line with the theory of probability and statistical methods, allow to take into account the age structure and sex of the insured and their family members and to estimate the value of the provisions for the whole portfolio.

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

6.2.5. Deferred acquisition expenses

From 1 January 2015, PZU extended the range of the costs that undergo deferral in time by some of indirect acquisition costs related to conclusion and extension of insurance policies (especially the costs of operations indirectly related to sales processes which cannot be qualified as indirect 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 scope of selling the policies. The change mentioned above provides better proportionality of revenue and expenses (written premium generated by these activities is deferred in time through the premium reserve) and resulted in the increase of the gross result for 2015 by the amount of PLN 112,031 thousand.

(in PLN thousand)

6.2.6. Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as presented in Note 45) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

Actuarial assumptions

The table below presents the key actuarial assumptions made for calculation of provisions.

Key actuarial assumptions made for calculation of provisions for retirement and death benefits	31 December 2015	31 December 2014
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve [1]	in accordance with the bond yield curve [2]
- other PZU Group entities	1.0%-4.5%	1.0%-4.5%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group entities	0.2%-5.0%	0.2%-4.3%
Mortality rate, including:		
- PZU and PZU Życie	PLET [3]	PLET [3]
- other PZU Group entities	PLET [3]	PLET [3]
Employee turnover ratio, including:		
- PZU and PZU Życie	specific to company [4]	specific to company [4]
- other PZU Group entities	0.0%-15.6%	0.0%-10.0%)
Disability rate (entitlement to a disability pension), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group entities	30%-60% PLET [5]	30%-60% PLET

1) The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2015 covers the period from 2016 to 2045, assuming increasing values (1.51%-3.41%).

2) The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2014 covers the period from 2015 to 2045, assuming increasing values for the range until 2033 (1.75%-2.90%) and subsequently becoming an inverted yield curve decreasing to the level of 2.88%.

3) The assumed mortality rate matches the level defined in PLET.

4) The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and sex.

5) The disability rate represents a relevant percentage of the mortality rate described above. Some PZU Group entities do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	31 December 2015		31 December 2014	
	Retirement benefits	Death benefits	Retirement benefits	Death benefits
Discount rates				,
- increase by 1 p.p.	(2,028)	(2,578)	(2,124)	(2,629)
- decrease by 1 p.p.	2,517	3,094	2,652	3,176
Projected pay growth rates:				
- increase by 1 p.p.	2,490	3,056	2,611	3,125
- decrease by 1 p.p.	(2,044)	(2,596)	(2,134)	(2,639)
Mortality rate:				
- increase by 10%	(239)	2,026	(245)	1,978
- decrease by 10%	245	(2,071)	251	(2,022)
Employee turnover ratio:				
- increase by 10%	(332)	(620)	(356)	(620)
- decrease by 10%	350	650	375	650

6.2.7. Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, in accordance with IAS 37, 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 descriptions and amounts of provisions for disputes are presented in Note 46 and 54.

6.2.8. 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. Deferred tax assets and liabilities are recognized according to the principles defined in Note 33.

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 that 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 criterion of consolidated entities with the exception of the insurance companies in PZU Group (PZU, PZU Życie, and Link4) with the registered office in Poland, where additional segments based on the criteria such as customer groups, product lines and types of activities can be distinguished.

PZU and Link4 segments:

- Corporate insurance (non-life insurance);
- Retail customer insurance (non-life insurance);
- Investment activities – comprising investments using own funds.

PZU Życie segments:

- Group insurance and individually continued insurance (life insurance);
- Individual life insurance (life insurance);
- Investment activities – including investments using own funds;
- Investment contracts – described further in this chapter.

Due to the differences and operation in different regulatory environments, the internal financial reporting system used in PZU Group, in accordance with the segmentation pattern of PZU Group based on the criterion of consolidated entities and the usefulness for the users of financial statements, the additional following segments have been distinguished:

- Pension insurance
- Baltic states – Lithuania, Latvia, Estonia (non-life and life insurance);
- Ukraine (non-life and life insurance).

Operating segments may be aggregated into a single reporting segment if the qualitative and quantitative criteria described in IFRS 8.12–19 are met. In the consolidated financial statements separate operating segments have not been aggregated into reportable segments with the exception of the "Investments" segment, which comprises investment activities using the PZU Group entities' own funds, and the "Baltic states" segment in which the countries have been classified together due to the similar products and services offered and a similar regulatory environment.

7.1.2. Geographical areas

PZU Group applies additional geographical segmentation as follows:

- Poland;
- 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 (risk-free rate). 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:

- in insurance companies registered in Poland – 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 on insurance defined in PAS, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- in the case of insurance companies registered abroad – as described above, taking into account the total investment performance of the company, i.e. without adjusting the profit on investment described above, calculated in accordance with IFRS;
- in non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

7.4 Segments characteristics

Description of all the reportable segments of PZU Group, including the presentation of the accounting policies used for presenting financial data:

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – 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 big enterprises;
- Retail customer insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to retail customers and entities in the SME sector;
- Group and individually continued insurance (life insurance) – reporting in accordance with Polish Accounting Standards – 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;
- Individual insurance (life insurance) – reporting in accordance with Polish Accounting Standards – insurance offered by PZU to individual customers whereby an insurance contract covers a given individual who is subject to separate risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investment – reporting in accordance with Polish Accounting Standards – comprises investment activity conducted with the PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions of PZU, Link4 and PZU Życie in insurance products, i.e. the surplus of income from investment activities of PZU, Link4 and PZU Życie over the income to insurance segments according to transfer prices. Additionally, the "Investments" segment includes income earned on other excess cash in PZU Group (including consolidated investment funds);
- Pension insurance – reporting in accordance with Polish Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB with its Estonian branch, AAS Balta, PZU Lithuania (until 30 September 2015), UAB PZU Lietuva Gyvybes Draudimas;
- Investment contracts – reporting in accordance with Polish Accounting Standards – comprising 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), described in Note 7.5.2;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "Other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

7.5 Polish Accounting Standards applied

7.5.1. 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 2015.

The separate financial statements of PZU for 2015 are available on the PZU website www.pzu.pl under "Investor Relations".

7.5.2. PZU Życie

The PZU accounting policy in accordance with PAS is convergent with PZU PAS policy (excluding accounting policies regarding insurance contracts and investment contracts).

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU have been presented in Notes:5.13.4, 5.13.5, 5.18.1.2, 5.18.2.2.

The key difference between PAS and IFRS as regards accounting for insurance contracts 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 case of the latter, the written premium is not recognized. The classification of contracts is described in Note 6.1.2.

7.6 Structure of the segment reporting note and reconciliations

Due to the fact that the profits of segments are measured in accordance with the accounting policies of the country of residence of the PZU Group's company, financial data from segments are disclosed according to several different accounting standards (PAS, IFRS).

Reconciliation of the totals of revenues (understood as net earned premium) and profit or loss of the reportable segments with the consolidated investment result as required by IFRS 8.28 is presented in Note 7.7.

7.7 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: management reporting does not include such documents. The key information analyzed by 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. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirements related to capital adequacy ratios and having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- presentation of the net profit or loss on an investment with a single amount expressed as a difference between realized and unrealized revenue and expensed 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 thousand)

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Profit and loss account for the period from 1 January 2015 to 31 December 2015	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	1 765 031	7 309 028	6 688 657	1 234 260	-	-	168 184	1 193 884	141 088	-	18 500 132
Gross written premiums - cross-segment	59 422	217 739	-	-	-	-	-	-	-	-	277 161
Gross written premiums	**1 824 453**	**7 526 767**	**6 688 657**	**1 234 260**	-	-	**168 184**	**1 193 884**	**141 088**	-	**18 777 293**
Reinsurers' share in gross written premium	(261 065)	(218 688)	553	(22)	-	-	(67 822)	(41 354)	-	-	(588 398)
Net written premiums	**1 563 388**	**7 308 079**	**6 689 210**	**1 234 238**	-	-	**100 362**	**1 152 530**	**141 088**	-	**18 188 895**
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	46 049	113 771	-	-	-	-	17 509	3 624	-	-	180 953
Net earned premiums	**1 476 022**	**6 791 252**	**6 691 210**	**1 234 634**	-	-	**102 150**	**1 109 535**	**141 063**	-	**17 545 866**
Investment income, including:	121 403	518 130	601 663	250 382	2 287 073	6 949	41 270	21 782	16 064	175 239	4 039 955
Net investment result (external transactions)	121 403	518 130	601 663	250 382	506 166	6 949	41 270	21 782	16 064	175 239	2 259 048
Net investment result (cross-segment transactions)	-	-	-	-	1 780 907	-	-	-	-	-	1 780 907
Other technical income net of reinsurance	48 950	166 452	997	74	-	-	-	-	4	-	216 477
Operating revenues of non-insurance companies	-	-	-	-	-	118 521	-	-	-	591 876	710 397
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	908	-	-	-	21 091	21 999
Gross claims and benefits paid	(951 558)	(4 459 100)	(4 714 810)	(843 613)	-	-	(87 081)	(695 815)	(698 693)	-	(12 450 670)
Changes in provisions for outstanding claims and benefits (gross)	(267 738)	(69 651)	(35 413)	(6 581)	-	-	757	(13 128)	4 235	-	(387 519)
Reinsurers' share in claims and benefits paid	41 393	52 231	123	-	-	-	13 124	16 765	-	-	123 636
Reinsurer' share in change in provisions	308 352	32 425	-	-	-	-	(85)	5 243	-	-	345 935
Net claims	**(869 551)**	**(4 444 095)**	**(4 750 100)**	**(850 194)**	-	-	**(73 285)**	**(686 935)**	**(694 458)**	-	**(12 368 618)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	(10 040)	(26 916)	31 624	(240 832)	-	-	-	-	558 454	-	312 290
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(6 059)	(1 132)	(266)	(209)	-	-	-	-	5	-	(7 661)
Other technical charges – net of reinsurance	(50 672)	(288 948)	(66 685)	(5 844)	-	-	-	-	(654)	-	(412 803)
Interest expenses							(255)	(1 833)		(65 502)	(67 590)
Acquisition expenses	(287 687)	(1 394 293)	(356 308)	(122 731)	-	(2 947)	(46 617)	(252 779)	(9 993)	-	(2 473 355)
Administrative expenses	(127 383)	(665 744)	(577 220)	(59 670)	-	(39 865)	(21 154)	(146 422)	(9 345)	-	(1 646 803)
Reinsurance commission and share in profits	16 627	(3 058)	(222)	-	-	-	-	-	-	-	13 347
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(590 660)	(590 660)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(2 087)	-	-	-	(22 978)	(25 065)
Insurance result / Operating profit (loss)	**311 610**	**651 648**	**1 574 693**	**205 610**	**2 287 073**	**81 479**	**2 109**	**43 348**	**1 140**	**109 066**	**5 267 776**

(in PLN thousand)

Profit and loss account for the period from 1 January 2014 to 31 December 2014	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	1 807 349	6 559 511	6 539 082	1 268 637	-	-	173 562	536 498	374 467	-	17 259 106
Gross written premiums - cross-segment	23 794	9 973	-	-	-	-	-	-	-	-	33 767
Gross written premiums	**1 831 143**	**6 569 484**	**6 539 082**	**1 268 637**	-	-	**173 562**	**536 498**	**374 467**	-	**17 292 873**
Reinsurers' share in gross written premium	(226 610)	(62 606)	(4 272)	(122)	-	-	(32 988)	(27 698)	-	-	(354 296)
Net written premiums	**1 604 533**	**6 506 878**	**6 534 810**	**1 268 515**	-	-	**140 574**	**508 800**	**374 467**	-	**16 938 577**
											-
Changes in unearned premiums and unexpired risks reserves (gross)	(201 832)	37 816	2 242	(1 088)	-	-	(13 076)	(31 528)	14	-	(207 452)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	59 559	18 311	-	-	-	-	8 423	(278)	-	-	86 015
Net earned premiums	**1 462 260**	**6 563 005**	**6 537 052**	**1 267 427**	-	-	**135 921**	**476 994**	**374 481**	-	**16 817 140**
											-
Investment income, including:	136 456	562 821	713 254	326 696	2 823 234	11 639	41 058	14 617	43 550	167 678	4 841 003
Net investment result (external transactions)	136 456	562 821	713 254	326 696	578 923	11 639	41 058	14 617	43 550	167 678	2 596 692
Net investment result (cross-segment transactions)	-	-	-	-	2 244 311	-	-	-	-	-	2 244 311
											-
Other technical income net of reinsurance	37 215	106 596	1 103	48	-	-	-	-	5	-	144 967
Operating revenues of non-insurance companies	-	-	-	-	-	270 565	-	-	-	443 144	713 709
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	711	-	-	-	5 916	6 627
											-
Gross claims and benefits paid	(774 846)	(3 728 363)	(4 513 462)	(658 202)	-	-	(103 247)	(312 758)	(1 389 147)	-	(11 480 025)
Changes in provisions for outstanding claims and benefits (gross)	(315 611)	(693 683)	14 017	19 413	-	-	(1 786)	(21 625)	(2 571)	-	(1 001 846)
Reinsurers' share in claims and benefits paid	28 166	34 380	85	-	-	-	7 208	26 293	-	-	96 132
Reinsurer' share in change in provisions	98 323	24 254	-	-	-	-	3 477	(4 126)	-	-	121 928
Net claims	**(963 968)**	**(4 363 412)**	**(4 499 360)**	**(638 789)**	-	-	**(94 348)**	**(312 216)**	**(1 391 718)**	-	**(12 263 811)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	2 427	(9 526)	(70 328)	(611 119)	-	-	-	-	1 015 526	-	326 980
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(2 325)	-	(638)	-	-	-	-	-	(38)	-	(3 001)
Other technical charges – net of reinsurance	(39 759)	(220 142)	(21 227)	(1 689)	-	-	-	-	(494)	-	(283 311)
Interest expenses							(22)	(766)		(82 944)	(83 732)
Acquisition expenses	(306 347)	(1 238 906)	(356 627)	(126 442)	-	(6 349)	(52 126)	(115 445)	(16 466)	-	(2 218 708)
Administrative expenses	(125 050)	(617 450)	(542 974)	(53 381)	-	(72 838)	(28 130)	(80 239)	(9 716)	-	(1 529 778)
Reinsurance commission and share in profits	16 192	(26 506)	1 570	-	-	-	-	-	-	-	(8 744)
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(415 875)	(415 875)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(244)	-	-	-	(25 625)	(25 869)
Insurance result / Operating profit (loss)	**217 101**	**756 480**	**1 761 825**	**162 751**	**2 823 234**	**203 484**	**2 353**	**(17 055)**	**15 130**	**92 294**	**6 017 597**

(in PLN thousand)

Reconciliation of the totals of segments and consolidated data	1 January - 31 December 2015		1 January - 31 December 2014	
	Net earned premium	Segment result	Net earned premium	Segment result
Segment total	17,545,866	5,267,776	16,817,140	6,017,597
Presentation of investment contracts	(141,063)	-	(374,481)	-
Equity instruments measurement	-	103,795	-	55,972
Property valuation	-	(31,708)	-	(29,821)
Equalization provision and prevention fund	-	25,193	-	(61,260)
The Company's Social Benefits Fund charges and actuarial expenses	-	(17,284)	-	(11,968)
Consolidation adjustments	(19,932)	(2,408,387) [1]	(13,289)	(2,277,302)
Consolidated data	**17,384,871**	**2,939,385**	**16,429,370**	**3,693,218**

[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).

Geographical segmentation 2015	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	16,998,069	1,193,884	168,184	(1,093)	18,359,044
Gross written premiums – cross-segment	64,692	-	-	(64,692)	-
Revenue from commissions and fees	242,799	-	-	-	242,799
Net investment income	1,512,351	16,861	42,475	(419)	1,571,268
Net result on realization and impairment losses on investments	(390,839)	4,310	(2,193)	165,483	(223,239)
Net change in the fair value of assets and liabilities measured at fair value	389,649	611	988	-	391,248
Non-current assets other than financial [1]	2,387,834	302,298	3,229	(405)	2,692,956
Change in deferred tax assets	345,674	-	1,145	2,370	349,189
Assets	104,738,120	1,825,890	217,201	(1,352,202)	105,429,009

[1] Concerns intangible assets and property, plant and equipment.

Geographical segmentation 2014	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	16,174,579	536,498	173,562	-	16,884,639
Gross written premiums – cross-segment	26,815	-	-	(26,815)	-
Revenue from commissions and fees	350,764	-	-	-	350,764
Net investment income	1,654,726	10,241	39,682	-	1,704,649
Net result on realization and impairment losses on investments	426,016	1,402	(271)	-	427,147
Net change in the fair value of assets and liabilities measured at fair value	510,482	2,974	1,655	-	515,111
Non-current assets other than financial [1]	1,706,430	160,650	3,887	(666)	1,870,301
Change in deferred tax assets	20,556	5,383	1,018	-	26,957
Assets	67,788,204	1,185,229	224,704	(1,625,376)	67,572,761

[1] Concerns intangible assets and property, plant and equipment.

7.8 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 54.4 presents revenues from 10 biggest business partners of PZU Groups whose shares are held by the State Treasury. PZU Group does not recognize different entities controlled by the Polish government as a single customer (including government bodies and similar entities on the local, national or international level).

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.:

- the 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 three components:

- 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 making decisions about their magnitude.
- determining the risk appetite and risk profile.

As part of preparations for the entry into force of the Solvency II, all insurance entities of PZU Group were covered by a coherent, integrated risk management system. The approach implemented in 2015 assures compatibility with the provisions of the Act on Insurance and Reinsurance of 11 September 2015 (Journal of Laws of 2015, item 1844) which came into force as at 1 January 2016. Entities from other sector of the financial market are required to apply standards that are appropriate to their sector. The 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 and shared information, and manages the risk of PZU Group in aggregate terms.

Due to a short period of time which passed between the date of taking control over Alior Bank (18 December 2015) and the date of publication of the consolidated financial statement and due to the current banking regulations concerning e.g. banking secrecy, from the day of acquiring control by PZU Group to the date of publishing consolidated financial statements, risk management in Alior Bank was performed separately from risk management in other entities within PZU Group. Nevertheless, PZU Group may monitor risk management system at Alior Bank through the members of the supervisory board designated by PZU.

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

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 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;
- the 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.

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

- the 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;
- the second line of defense – denotes risk management by specialized units responsible for risk identification, monitoring and reporting, as well as controlling limits;
- the 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 oversees the risk management process by determining an annual strategy in this respect, e.g. by accepting market risk management strategy, including main risk limits, and controlling the compliance of Alior Bank risk policy with the strategy and financial plan.

The Management Board of the Bank is responsible for e.g.: supervising the risk management process, risk monitoring and reporting; specifying proper organization and division of duties, 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 controlling the limits and notifying when they are exceeded.

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 process of approving year budget. The strategy is in place by the times of the next update.

The Assets and Liabilities Management Committee exercises daily control over market risk management, including liquidity risk, accepts limits of Alior Bank 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 the 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 the Group.

The Management Board of Alior Bank is responsible for supervising the risk level, it is supervised by the Supervisory Boardwhere PZU has its representatives.

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 the 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, conducted by dedicated units;
- reporting – it 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:

- the PZU Group level – it 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;

- the company level – it 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 company, 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 within the framework of the integrated risk management system.

8.5 Risk profile

A major change in PZU Group risk profile took place in 2015 and was related to consolidation of Alior Bank and disclosing the acquired loan and deposit portfolio in the statement of financial position. As a result, interest rate risk and credit risk related to these portfolios became significant risk components.

PZU Group is exposed to the following main types of risk: actuarial risk, market risk (with emphasis on interest rate risk), credit risk, concentration risk, operational risk and non-compliance risk.

The key event, from the point of view of the risk profile of PZU Group, was the integration of the risk management process in PZU Group's insurance companies, as well as the implementation of Solvency II requirements in these companies.

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

Actuarial risk – 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 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 increase 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 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 extent 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 analyzes of claims incidence are made at the level of product groups, individual insurance portfolios and well-defined homogeneous risk groups. These analyzes 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.

(in PLN thousand)

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 analyzes 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 three-stage risk acceptance system depending on competency scopes and limits granted.

Reinsurance

The objective of the reinsurance program in 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);
- 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 protects the financial insurance portfolio.

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

8.5.1.1. Exposure to insurance risk in non-life products

Primary cost ratios in non-life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Expense ratio	29.96%	28.94%
Claims ratio, net of reinsurance	63.82%	66.39%
Reinsurer’s retention ratio	3.54%	3.84%
Combined ratio	93.78%	95.32%

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.

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.

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)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Provision at the end of the financial year	7,540,570	7,898,097	8,292,721	8,698,661	9,380,501	9,870,123	10,989,024	11,782,567	13,311,566	13,162,561
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	7,300,086	7,697,588	8,382,022	8,560,746	9,680,960	10,298,173	11,285,586	12,241,486	13,031,673	
- calculated two years later	7,286,968	7,833,155	8,409,631	8,855,827	10,192,492	10,752,650	11,958,413	12,179,921		
- calculated three years later	7,436,865	7,852,001	8,757,918	9,346,313	10,718,813	11,589,871	11,973,179			
- calculated four years later	7,443,246	8,140,607	9,215,412	9,874,432	11,574,390	11,738,383				
- calculated five years later	7,661,124	8,599,531	9,723,948	10,712,439	11,735,090					
- calculated six years later	8,102,772	9,076,948	10,558,365	10,875,392						
- calculated seven years later	8,523,330	9,842,325	10,747,125							
- calculated eight years later	9,224,422	10,027,933								
- calculated nine years later	9,416,220									
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)	9,416,220	10,027,933	10,747,125	10,875,392	11,735,090	11,738,383	11,973,179	12,179,921	13,031,673	
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)	4,684,166	4,835,703	4,996,462	4,628,205	4,904,361	4,169,497	3,675,277	2,957,342	2,237,974	
Provision recognized in the statement of financial positions	4,732,054	5,192,230	5,750,663	6,247,187	6,830,729	7,568,886	8,297,902	9,222,579	10,793,699	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,875,650)	(2,129,836)	(2,454,404)	(2,176,731)	(2,354,589)	(1,868,260)	(984,155)	(397,354)	279,893	
The above difference as a percentage of the first year provision	-25%	-27%	-30%	-25%	-25%	-19%	-9%	-3%	2%	

Claims development in direct property and personal insurance, net of reinsurance (by financial year)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Provision at the end of the financial year	6,356,239	6,916,099	7,433,410	7,972,938	8,639,044	9,304,621	10,413,376	11,453,315	12,813,985	12,652,743
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	6,145,931	6,790,822	7,568,099	7,843,760	8,838,330	9,731,139	10,722,247	11,787,321	12,524,663	
- calculated two years later	6,201,722	6,968,715	7,597,785	8,091,605	9,344,945	10,185,213	11,282,329	11,703,615		
- calculated three years later	6,396,354	6,991,045	7,909,625	8,558,410	9,872,521	10,946,654	11,277,787			
- calculated four years later	6,405,273	7,246,292	8,343,715	9,106,236	10,672,033	11,071,268				
- calculated five years later	6,589,073	7,683,193	8,874,588	9,891,566	10,817,590					
- calculated six years later	7,008,662	8,189,106	9,656,518	10,037,345						
- calculated seven years later	7,457,627	8,904,032	9,826,508							
- calculated eight years later	8,108,651	9,070,206								
- calculated nine years later	8,280,359									
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)	8,280,359	9,070,206	9,826,508	10,037,345	10,817,590	11,071,268	11,277,787	11,703,615	12,524,663	
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)	3,745,809	4,075,856	4,281,212	3,996,811	4,211,923	3,760,879	3,308,752	2,858,444	2,176,622	
Provision recognized in the statement of financial positions	4,534,550	4,994,350	5,545,296	6,040,534	6,605,667	7,310,389	7,969,035	8,845,171	10,348,041	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,924,120)	(2,154,107)	(2,393,098)	(2,064,407)	(2,178,546)	(1,766,647)	(864,411)	(250,300)	289,322	
The above difference as a percentage of the first year provision	-30%	-31%	-32%	-26%	-25%	-19%	-8%	-2%	2%	

Increase in the negative value of the run-off result in 2015 is mainly the result of identifying the claims relating to personal claims for previous years claims.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Motor insurance products (MTPL and own damage) account for the major part of PZU Group portfolio. Both types of insurances are usually concluded for a year, during which a claim must occur to be covered. The own damage insurance is based on a claim-made principle, so it is not a source of uncertainty. It is unlike MTPL, 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 case of MTPL 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 climatic conditions of the region where PZU Group operates, the concentration risk may occur in the case of catastrophic damage such as floods or hurricanes. For this reason, presented below is catastrophic damage PZU Group is exposed to.

Depending on the percentage of the value of paid out flood and hurricane damage in the total value of claims paid in the period in which the catastrophic events occurred, i.e. the floods or hurricanes, three groups of regions have been distinguished. Next, relevant insurance sums and the number of policies was defined for each region, thus arriving at flood and hurricane risk concentration.

Risk concentration in non-life insurance – flood claims exposure

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2015		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where flood claims constitute 0 to 5% of total claims	Sum insured	6.5%	10.0%	4.3%	1.9%	9.8%	**32.5%**
	Number of policies	32.2%	10.3%	2.1%	0.5%	0.3%	**45.4%**
B group regions – where flood claims constitute 5 to 15% of total claims	Sum insured	1.1%	1.5%	0.8%	0.6%	7.1%	**11.1%**
	Number of policies	5.8%	1.6%	0.4%	0.1%	0.2%	**8.1%**
C group regions – where flood claims constitute over 15% of total claims	Sum insured	6.4%	10.3%	3.9%	2.1%	33.7%	**56.4%**
	Number of policies	33.1%	10.6%	1.9%	0.5%	0.4%	**46.5%**
Total	**Sum insured**	**14.0%**	**21.8%**	**9.0%**	**4.6%**	**50.6%**	**100.0%**
	Number of policies	**71.1%**	**22.5%**	**4.4%**	**1.1%**	**0.9%**	**100.0%**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2014		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where flood claims constitute 0 to 5% of total claims	Sum insured	3.8%	6.6%	2.5%	1.2%	12.4%	**26.5%**
	Number of policies	18.6%	5.6%	1.2%	0.3%	0.3%	**26.0%**
B group regions – where flood claims constitute 5 to 15% of total claims	Sum insured	2.5%	2.8%	1.1%	0.9%	6.4%	**13.7%**
	Number of policies	12.3%	2.8%	0.5%	0.2%	0.2%	**16.0%**
C group regions – where flood claims constitute over 15% of total claims	Sum insured	8.2%	12.9%	4.9%	2.4%	31.4%	**59.8%**
	Number of policies	41.8%	13.0%	2.3%	0.5%	0.4%	**58.0%**
Total	**Sum insured**	**14.5%**	**22.3%**	**8.5%**	**4.5%**	**50.2%**	**100.0%**
	Number of policies	**72.7%**	**21.4%**	**4.0%**	**1.0%**	**0.9%**	**100.0%**

Risk concentration in property and personal insurance - hurricane claims exposure

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2015		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where hurricane claims constitute 0 to 5% of total claims	Sum insured	6.2%	9.9%	4.3%	2.0%	14.9%	**37.3%**
	Number of policies	32.9%	10.2%	2.0%	0.5%	0.3%	**45.9%**
B group regions – where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.6%	8.0%	3.1%	1.6%	25.5%	**42.8%**
	Number of policies	23.1%	8.2%	1.5%	0.4%	0.6%	**33.8%**
C group regions – where hurricane claims constitute over 15% of total claims	Sum insured	2.9%	4.0%	1.7%	1.0%	10.3%	**19.9%**
	Number of policies	15.1%	4.1%	0.8%	0.2%	0.1%	**20.3%**
Total	**Sum insured**	**13.7%**	**21.9%**	**9.1%**	**4.6%**	**50.7%**	**100.0%**
	Number of policies	**71.1%**	**22.5%**	**4.3%**	**1.1%**	**1.0%**	**100.0%**

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2014		Sum insured					Total
		0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
A group regions – where hurricane claims constitute 0 to 5% of total claims	Sum insured	8.9%	15.6%	6.0%	3.0%	38.3%	**71.8%**
	Number of policies	46.3%	14.5%	2.8%	0.7%	0.8%	**65.1%**
B group regions – where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.7%	5.8%	2.2%	1.3%	9.8%	**23.8%**
	Number of policies	22.8%	5.9%	1.0%	0.3%	0.3%	**30.3%**
C group regions – where hurricane claims constitute over 15% of total claims	Sum insured	0.7%	0.9%	0.3%	0.2%	2.3%	**4.4%**
	Number of policies	3.5%	0.9%	0.2%	0.0%	0.0%	**4.6%**
Total	**Sum insured**	**14.3%**	**22.3%**	**8.5%**	**4.5%**	**50.4%**	**100.0%**
	Number of policies	**72.6%**	**21.3%**	**4.0%**	**1.0%**	**1.1%**	**100.0%**

Transfer of risk to the areas of a higher percentage of hurricane claims results from a larger number of events subject to insurance caused by hurricanes in 2015 versus the events of 2014.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Risk concentration in non-life insurance: general liability 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 premium in non-life insurance – TPL as at 31 December 2015	Sum insured					Total
	0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
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 from 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%**

Gross written premium in non-life insurance – TPL as at 31 December 2014	Sum insured					Total
	0-200 thousand PLN	200-500 thousand PLN	500-1 ,000 thousand PLN	1,000-2 ,000 thousand PLN	over 2,000 thousand PLN	
General TPL in personal life and other	15.5%	3.4%	2.5%	2.9%	14.1%	**38.4%**
Medical TPL	0.6%	1.0%	1.2%	6.4%	33.1%	**42.3%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.5%	2.9%	1.3%	1.5%	3.7%	**14.9%**
TPL of farmers and their movable property	0.0%	0.0%	0.0%	4.3%	0.0%	**4.3%**
Product TPL	0.0%	0.0%	0.0%	0.0%	0.1%	**0.1%**
Total	**21.6%**	**7.3%**	**5.0%**	**15.1%**	**51.0%**	**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.

Gross change in the assumptions for the provision for capitalized value of annuities amount in non-life insurance	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical rate – increase by 0.5 p.p.	426,594	426,244	426,594	426,244
Technical rate – decrease by 1.0 p.p.	(1,103,521)	(1,101,344)	(1,103,521)	(1,101,344)
Mortality at 110% of the currently assumed rate	131,619	132,268	131,619	132,268
Mortality at 90% of the currently assumed rate	(146,720)	(147,984)	(146,720)	(147,984)

Change in the assumptions for the provision for capitalized value of annuities amount – net of reinsurance in property and personal insurance	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical rate – increase by 0.5 p.p.	411,837	415,451	411,837	415,451
Technical rate – decrease by 1.0 p.p.	(1,063,628)	(1,073,704)	(1,063,628)	(1,073,704)
Mortality at 110% of the currently assumed rate	127,435	128,940	127,435	128,940
Mortality at 90% of the currently assumed rate	(142,011)	(144,263)	(142,011)	(144,263)

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

8.5.1.2. Exposure to insurance risk in life products

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 products, 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 analyzes 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 profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical interest rate – decrease by 1.0 p.p.	(31,501)	(34,259)	(31,501)	(34,259)
Mortality at 90% of the currently assumed rate	(11,704)	(12,318)	(11,704)	(12,318)

Assumptions regarding liabilities arising from insurance and investment contracts with DPF in life insurance excluding annuity insurance

Change in 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 profit/loss		Effect of changes in assumptions on equity	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Technical interest rate – decrease by 1.0 p.p.	(2,157,032)	(2,194,319)	(2,157,032)	(2,194,319)
Mortality at 110% of the currently assumed rate	(901,924)	(922,805)	(901,924)	(922,805)
110% morbidity and accident rate	(178,931)	(187,082)	(178,931)	(187,082)

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Effects of customers' withdrawing from life insurance products

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

Item in financial statements	31 December 2015	31 December 2014
Change in technical provisions	2,116,763	2,093,927
Claims and benefits paid	(803,356)	(782,563)
Change in deferred acquisition costs	(7,002)	(6,256)
Gross financial profit/loss	1,306,406	1,305,109
Net financial profit/loss	1,058,189	1,057,138
Equity	1,058,189	1,057,138

8.5.2. Market risk

Market risk is a risk of a loss or an unfavorable change in the financial position, 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;
- unlisted share price – a possibility of incurring a loss following changes in the value of unlisted 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 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 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 term of structure of market interest rates or volatility of these risk-free rates;
- basis risk – a possibility to incur 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 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 – 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 debt instruments issued by the State Treasury or their volatility;
- 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.

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 case of other subcategories of market risk, and is described in Note 8.5.3 along with the process of managing the counterparty 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);

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

- Alior Bank bank activity – as the result of which PZU Group significantly increased exposure to interest rate risk and credit risk).

The investment activity in the 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 by the Value at Risk method. 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 2015	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**82,838,239**	**1,625,086**	**84,463,325**
Fixed interest debt instruments	35.1,35.2 , 35.3, 35.4	30,962,178	1,429,723	32,391,901
Floating interest debt instruments	35.1,35.2 , 35.3, 35.4	7,963,895	103,956	8,067,851
Loan receivables from clients	35.4	30,331,615	-	30,331,615
Term deposits with credit institutions	35.4	5,187,637	91,407	5,279,044
Loans	35.4	1,929,045	-	1,929,045
Cash	40	2,439,863	-	2,439,863
Buy sell-back transactions	35.4	3,132,740	-	3,132,740
Derivative instruments		891,266	-	891,266
Financial assets exposed to other price risk		**3,671,814**	**3,541,002**	**7,212,816**
Shares listed on the regulated market	35.2, 35.3	2,984,125	519,322	3,503,447 [1)]
Participation units and certificates in investment funds	35.2 , 35.3	466,001	3,021,680	3,487,681 [2)]
Derivative instruments	35.3	221,688	-	221,688
Total		**86,510,053**	**5,166,088**	**91,676,141**

[1)] Difference of the values presented as equity instruments listed on the regulated market in Notes 35.2 and 35.3 amounting to PLN 19,153 thousand regards listed units and investment certificates in the line below.

[2)] Difference of the values presented as equity instruments not listed on the regulated market in the Notes 35.2 and 35.3 and amounting to PLN 33,700 47,374 thousand regards listed units and investment certificates (PLN 19,153 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 52,853 thousand).

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount as at 31 December 2014	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		**48,991,002**	**1,557,038**	**50,548,040**
Fixed interest debt instruments	35.1,35.2 , 35.3, 35.4	30,686,636	1,368,931	32,055,567
Floating interest debt instruments	35.1,35.2 , 35.3, 35.4	5,851,652	105,969	5,957,621
Term deposits with credit institutions	35.4	6,061,643	82,138	6,143,781
Loans	35.4	2,309,972	-	2,309,972
Cash	35.4	324,007	-	324,007
Buy sell-back transactions	40	3,250,173	-	3,250,173
Derivative instruments	35.4	506,919	-	506,919
Financial assets exposed to other price risk		**3,110,178**	**3,422,151**	**6,532,329**
Shares listed on the regulated market		2,831,054	532,352	3,363,406 [1)]
Participation units and certificates in investment funds	35.2, 35.3	239,640	2,889,799	3,129,439 [2)]
Derivative instruments		39,484	-	39,484
Total		**52,101,180**	**4,979,189**	**57,080,369**

[1)] Difference of the values presented as equity instruments listed on the regulated market in notes 35.2 and 35.3 amounting to PLN 10,529 thousand regards listed units and investment certificates in the line below.

[2)] Difference of the values presented as equity instruments not listed on the regulated market in the notes 35.2 and 35.3 amounting to PLN 10,073 thousand regards listed units and investment certificates (PLN 10,529 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 456 thousand).

As at 31 December 2015 there were no financial assets and liabilities held for sale.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of financial assets and cash held for sale	Note 42	31 December 2014
Financial assets and cash exposed to interest rate risk		314,284
Fixed interest debt instruments		217,852
Term deposits with credit institutions		88,085
Cash		8,347
Financial assets exposed to other price risk		36,702
Shares listed on the regulated market		16,366
Participation units and certificates in investment funds		20,336
Total		**350,986**

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.

The table below presents PZU Group's derivatives as at 31 December 2015 and 31 December 2014.

Interest rate derivatives	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments presented as cash flows hedges – OTC, including:	100,000	6,060,000	4,635,000	-	10,795,000	139,578	-
- SWAP transactions	100,000	6,060,000	4,635,000	-	10,795,000	139,578	-
Instruments presented as held for trading, including:	**4,539,937**	**9,150,822**	**41,305,044**	**8,479,530**	**63,475,333**	**751,688**	**846,515**
Instruments listed on the regulated market, including:	413,148	1,236,454	411,090	-	2,060,692	-	20,362
- futures	413,148	1,236,454	411,090	-	2,060,692	-	20,362
OTC instruments, including:	4,126,789	7,914,368	40,893,954	8,479,530	61,414,641	751,688	826,153
- futures	2,449,411	162,123	6,543	-	2,618,077	22,168	19,905
- SWAP transactions	1,299,586	6,872,059	40,069,037	8,359,530	56,600,212	725,722	802,450
- call options	188,896	440,093	409,187	60,000	1,098,176	3,798	-
- put options	188,896	440,093	409,187	60,000	1,098,176	-	3,798
Total interest rate derivatives	**4,639,937**	**15,210,822**	**45,940,044**	**8,479,530**	**74,270,333**	**891,266**	**846,515**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Interest rate derivatives	Base amount by maturity as at 31 December 2014					Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments, including:	5,405,303	13,317,880	27,608,149	5,145,782	51,477,114	506,919	556,426
- futures	2,500,000	6,417,880	-	-	8,917,880	7,203	5,735
- SWAP transactions	2,905,303	6,900,000	27,608,149	5,145,782	42,559,234	499,716	550,691
Total interest rate derivatives	**5,405,303**	**13,317,880**	**27,608,149**	**5,145,782**	**51,477,114**	**506,919**	**556,426**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments, including:	**6,661,014**	**2,619,764**	**1,654 394**	**68,016**	**11,003,188**	**170,129**	**63,213**
- futures	1,448,763	573,313	295,341	-	2,317,417	54,620	7,747
- SWAP transactions	4,892,809	1,622,877	1,235,293	68,016	7,818,995	106,385	46,339
- call options	159,721	211,787	61,880	-	433,388	9,124	-
- put options	159,721	211,787	61,880	-	433,388	-	9,127
Total derivatives linked to currency exchange rates	**6,661,014**	**2,619,764**	**1,654,394**	**68,016**	**11,003,188**	**170,129**	**63,213**

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on the regulated market, including:	-	620,808	1,030,540	1,651,348	-	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
OTC instruments, including:	3,899,010	175,360	-	4,074,370	14,975	48,266
- futures	1,292,039	-	-	1,292,039	720	15,633
- SWAP transactions	2,606,971	-	-	2,606,971	13,016	32,633
- call options	-	87,680	-	87,680	994	-
- put options	-	87,680	-	87,680	245	-
Total derivatives linked to currency exchange rates	**3,899,010**	**796,168**	**1,030,540**	**5,725,718**	**14,975**	**57,782**

Security price derivatives	Base amount by maturity as at 31 December 2015					Assets at fair value as at 31 December 2015	Liabilities at fair value as at 31 December 2015
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on the regulated market, including:	514	28,987	-	-	29,501	131	-
- futures	514	-	-	-	514		-
- call options (sale)	-	28,987	-	-	28,987	131	-
OTC instruments, including:	119,893	736,339	384,091	3,177,910	4,418,233	51,428	30,756
- call options	119,893	385,223	384,091	1,588,955	2,478,162	51,428	-
- call options (sale)	-	351,116	-	1,588,955	1,940,071	-	30,756
Total security price derivatives	**120,407**	**765,326**	**384,091**	**3,177,910**	**4,447,734**	**51,559**	**30,756**

Security price derivatives	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on the regulated market, including:	-	734,930	1,030,540	1,765,470	1,843	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
- call options	-	114,122	-	114,122	1,843	-
OTC instruments, including:	215,110	102,539	365,732	683,381	22,666	2,120
- futures	153,443	-	-	153,443	-	2,120
- call options	61,667	102,539	365,732	529,938	22,666	-
Total security price derivatives	**215,110**	**837,469**	**1,396,272**	**2,448,851**	**24,509**	**11,636**

Risk concentration

	31 December 2015 (PLN thousand)	31 December 2015 (% of financial asset value)	31 December 2014 (PLN thousand)	31 December 2014 (% of financial asset value)
Involvement in treasury instruments issued and guaranteed by the Polish State Treasury and buy-sell-back transactions on these instruments	32,996,823	36.7%	36,161,177	63.7%
PZU Group's involvement in shares listed on the Warsaw Stock Exchange	4,896,218	5.4%	2,713,587	4.8%
Involvement in assets related to one bank (PKO Bank Polski SA - bank deposits, debt instruments and shares of that bank)	2,231,099	2.5%	1,953,044	3.4%
General involvement bank assets - bank deposits, debt instruments issued by banks, shares of banks and derivative transactions concluded with banks	14,431,537	16.1%	13,201,504	23.3%
Involvement in financial assets denominated in Polish zloty	79,906,781	88.9%	52,678,740	92.8%

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Exposure to debt instruments issued by treasuries other than the Polish Treasury, companies and local government authorities

Table below present the exposure of the PZU Group entities to bonds issued by treasuries other than the Polish Treasury, companies and local government authorities. Financial instruments classified as held to maturity as well as loans and receivables have been presented as measured at amortized cost, while financial instruments classified as available for sale and measured at fair value through profit or loss (both classified as such upon initial recognition and held for trading) have been presented as measured at fair value.

Debt instruments issued by treasuries other than the Polish Treasury

As at 31 December 2015	Currency	Reclassification to portfolio	Cost	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	24,715	25,664	25,664	-
Bulgaria	EUR	at amortized cost	15,361	15,495	15,465	-
Croatia	EUR	at amortized cost	16,910	17,023	16,806	-
Croatia	USD	at fair value	6,092	8,336	8,336	-
Czech Republic	CZK	at fair value	105,555	105,591	105,591	-
Spain	EUR	at fair value	78,536	76,260	76,260	-
Ireland	EUR	at fair value	6,878	6,827	6,827	-
Ireland	EUR	at amortized cost	7,433	7,547	7,800	-
Iceland	USD	at fair value	7,420	10,249	10,249	-
Lithuania	EUR	at fair value	374,017	400,777	400,777	-
Lithuania	EUR	at amortized cost	137,041	139,542	141,846	-
Lithuania	USD	at fair value	4,934	6,944	6,944	-
Latvia	EUR	at fair value	55,953	59,991	59,991	-
Latvia	EUR	at amortized cost	19,024	19,433	19,065	-
Latvia	USD	at fair value	31,236	40,191	40,191	-
Germany	EUR	at fair value	849,833	841,102	841,102	-
Portugal	EUR	at fair value	80,361	78,194	78,194	-
Romania	EUR	at fair value	91,315	101,171	101,171	-
Romania	EUR	at amortized cost	27,179	27,199	27,418	-
Romania	RON	at fair value	78,063	78,455	78,455	-
Romania	USD	at fair value	15,631	22,453	22,453	-
Sri Lanka	USD	at fair value	24,775	23,250	23,250	-
Turkey	USD	at fair value	99,310	103,164	103,164	-
Ukraine	UAH	at fair value	12,509 [1)]	9,955 [1)]	9,955 [1)]	-
Ukraine	UAH	at amortized cost	13,512,[1)]	11,256,[1)]	11,322,[1)]	-
Ukraine	USD	at fair value	3,710	3,645	3,645	-
Ukraine	USD	at amortized cost	1,518	1,965	2,071	-
Hungary	EUR	at fair value	111,052	115,176	115,176	-
Hungary	EUR	at amortized cost	12,642	12,935	13,074	-
Hungary	HUF	at fair value	157,196	156,924	156,924	-
Hungary	USD	at fair value	7,801	10,718	10,718	-
United States of America	USD	at fair value	160,062	155,685	155,685	-
other	EUR/USD	at fair value	63,343	63,526	63,526	-
other	EUR	at amortized cost	7,990	8,226	8,297	-
Total			**2,708,907**	**2,764,869**	**2,767,412**	**-**

[1)] For these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

As at 31 December 2014	Currency	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	12,589	13,941	13,941	-
Croatia	USD	at fair value	13,489	15,555	15,555	-
Croatia	EUR	at amortized cost	2,418	2,447	2,478	-
Cyprus	EUR	at fair value	20,663	21,585	21,585	-
Iceland	USD	at fair value	24,745	29,246	29,246	-
Lithuania	EUR	at fair value	61,935	68,565	68,565	-
Lithuania	LTL	at fair value	436,696	458,145	458,145	-
Lithuania	USD	at fair value	14,178	17,113	17,113	-
Lithuania	EUR	at amortized cost	12,964	14,050	15,380	-
Lithuania	LTL	at amortized cost	14,857	15,196	15,786	-
Latvia	EUR	at fair value	66,277	70,051	70,051	-
Latvia	USD	at fair value	31,236	35,048	35,048	-
Latvia	EUR	at amortized cost	1,631	1,679	1,781	-
Romania	EUR	at fair value	143,607	156,896	156,896	-
Romania	RON	at fair value	48,545	50,882	50,882	-
Romania	USD	at fair value	15,631	20,436	20,436	-
Turkey	USD	at fair value	449	477	477	-
Ukraine	USD	at fair value	1,458	1,663	1,663	-
Ukraine	UAH	at fair value	10,183 [1)]	9,343 [1)]	9,343 [1)]	-
Ukraine	UAH	at amortized cost	25,181 [1)]	9,231 [1)]	9,196 [1)]	-
Ukraine	USD	at amortized cost	23,692	25,916	25,785	-
Hungary	EUR	at fair value	17,308	20,230	20,230	-
Hungary	HUF	at fair value	160,882	163,499	163,499	-
Hungary	USD	at fair value	7,801	9,456	9,456	-
Hungary	EUR	at amortized cost	570	655	721	-
other	EUR/USD	at fair value	53,492	59,279	59,279	-
Total			**1,222,477**	**1,290,584**	**1,292,537**	**-**

[1)] For these bonds, the principal amount is repaid annually in a fixed amount of UAH 100 (i.e. 10% of the bond nominal value). The cost reveals the actual price paid by the company and does not include the repayments of the principal amount.

All debt securities issued by governments other than the government of the Republic of Poland, which have been measured at fair value or for which the fair value has been disclosed (classified as held to maturity) are included in Level I of the fair value hierarchy.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Debt instruments issued by companies and local government authorities.

As at 31 December 2015	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	322,868	325,778	325,778	-
	at amortized cost	1,520,556	1,534,875	1,564,538	-
WIG index companies – Fuels	at fair value	304,464	309,115	309,115	-
	at amortized cost	700,000	700,686	710,287	-
WIG index companies – Chemical index	at amortized cost	5,795	5,857	5,872	-
WIG index companies – Energy	at amortized cost	315,000	316,322	312,776	-
Not listed domestic banks	at amortized cost	20,000	20,250	22,132	-
Mortgage banks	at fair value	41,983	43,179	43,179	-
Foreign banks	at fair value	3,710	3,876	3,876	-
	at amortized cost	71,985	73,999	76,542	1,142
Local governments	at fair value	45,632	56,592	56,592	-
	at amortized cost	50,000	52,501	59,467	-
WIG index companies – Raw materials	at fair value	51,200	51,367	51,367	-
	at amortized cost	195,000	151,069	151,139	42,836
Other – impaired	at fair value	367,487	342,047	342,047	11,630
	at amortized cost	86,120	87,515	87,466	-
Total		**4,101,800**	**4,075,028**	**4,122,173**	**55,608**

As at 31 December 2014	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	184,224	190,676	190,676	-
	at amortized cost	1,616,283	1,630,862	1,711,036	-
WIG index companies – Fuels	at fair value	303,226	314,558	314,558	-
	at amortized cost	700,000	700,746	715,642	-
WIG index companies – Chemical index	at amortized cost	1,211	1,236	1,229	-
WIG index companies – Energy	at amortized cost	400,000	401,778	399,721	-
Not listed domestic banks	at amortized cost	20,000	20,271	23,594	-
Foreign banks	at fair value	23,600	24,081	24,081	-
	at amortized cost	76,359	77,813	82,944	-
Mortgage banks	at fair value	41,983	42,623	42,623	-
Local governments	at fair value	45,632	58,608	58,608	-
	at amortized cost	50,000	52,504	60,884	-
Other	at fair value	38,427	38,942	38,942	-
	at amortized cost	62,751	63,760	64,409	-
WIG index companies – Raw materials – written down	at amortized cost	200,000	193,142	201,339	10,144
Other – impaired	at fair value	11,630	-	-	11,630
Other foreign banks – impaired	at amortized cost	1,142	-	-	1,142
Total		**3,776,468**	**3,811,600**	**3,930,288**	**22,916**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

8.5.2.1. Interest rate risk

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 bp	601,366	148,659	125,668	223,086
Market interest rate increase by 100 bp	(548,302)	(142,455)	(138,436)	(219,307)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance, investment contract liabilities nor Alior Bank receivables from clients. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 8.5.1.

The interest rate risk related to Alior Bank's liabilities to clients 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 profit or loss;
- modelling the accounts with indefinite maturity date and interest rate determined for e.g. current deposits;
- influence of the non-interest items (e.g. equity, 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 estimation of BPV for Alior Bank as at 31 December 2015 has been presented below:

Currency	Up to 6 months	6 months – 1 year	1 year – 3 years	3-5 years	5-10 years	Total
PLN	(192.3)	17.3	369.8	(140.0)	30.3	85.2
EUR	(19.1)	(16.2)	(19.7)	(13.8)	(6.6)	(75.4)
USD	6.1	11.3	(6.2)	(6.8)	(0.4)	4.0
CHF	0.4	(0.1)	(1.4)	0.0	0.0	(1.1)
GBP	0.6	1.7	0.1	0.0	0.0	2.5
Other	(0.5)	(1.6)	0.0	0.0	0.0	(2.1)
Total	**(204.8)**	**12.5**	**342.6**	**(160.6)**	**23.4**	**13.1**

In order to estimate the level of interest rate risk, Alior Bank applies the Value at Risk (VaR) model. 99% VaR with the horizon of 10 days calculated as at 31 December 2015 for the banking records amounted to PLN 6,361 thousand. The banking operations for the interest rate risk management covers instruments (other than acquired for trade), loans, deposits, credits and derivative transactions aimed at hedging the risk of these operations. 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 utlization 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) as at 31 December 2015 is presented in the following table:

Scenario (1M/10Y)	Change in economic value of capital
+400 / +100	(170,383)
+100 / +400	(75,552)
+200 / +200	(99,421)
- 200 / - 200	79,039
- 100 / - 400	65,379
- 400 / - 100	78,498

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

8.5.2.2. Currency risk

Degree of risk exposure

Information regarding exposure to currency risk by class of financial instruments is presented in Note 39.

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	88,958	15,317	6,052	118,583
20% decrease in FX to PLN rates	(88,958) [1)]	(15,317) [1)]	(6,052)	(118,583)

[1)] With assumption of decrease by 80% in exchange rates of UAH against PLN (while retaining 20% decrease for other currencies) the negative influence on financial result and equity would amount to, respectively: PLN 46,550,000 and PLN 159,081,000.

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 2015, 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 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 Note 35.2 and 35.3

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group.

Change in portfolio value	31 December 2015		31 December 2014	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
increase in measurement of listed equity instruments by 20%	545,254	207,188	345,885	561,156
decrease in measurement of listed equity instruments by 20%	(545,254)	(207,188)	(345,885)	(561,156)

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;
- a 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 and currency portfolios 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 structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM), i.e. matching of 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), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

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 up to 6 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).

Degree of risk exposure

Future cash flows resulting from assets used as coverage of technical provisions have been presented as the nominal value of the projected future cash flows corresponding to the periods in which such cash flows are expected. As regards debt securities, loans and term deposits, all cash flows which are expected to occur by the date of redemption of such securities, withdrawal of investments or repayment of loans have been taken into consideration. Shares and participation units have been presented in the periods of their expected disposal or redemption.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

For the purpose of the analysis the adjustments of cash flows presented in tables on following pages and engagement of PZU Group in investment funds (units and investment certificates) have not been consolidated. This means that they are presented as units and investment certificates rather than assets held by the funds. Such an attitude reflects the liquidity management perspective and ensures coverage of technical provisions with assets at the level of given companies, taking into account statutory limits for type concentration of those assets.

Non-life insurance

The table below presents the match between undiscounted cash flows related to technical provisions in non-life insurance and the assets used as their coverage.

Item	Projected cash flows				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(2,165,008)	(1,506,727)	(2,118,797)	(5,314,198)	(10,794,855)
I. Outflows	(2,182,454)	(1,516,853)	(2,130,151)	(5,342,773)	(10,853,734)
II. Inflows	17,446	10,126	11,354	28,575	58,879
B. Inflows from assets covering technical provisions	2,361,268	1,617,615	2,108,827	6,158,922	11,869,752
I. Future inflows whose value is known as at the end of reporting year	1,964,880	999,235	627,170	4,742,265	6,188,827
- Treasury bonds	516,048	116,264	153,072	3,169,194	5,852,887
- Other debt securities	19,460	15,071	294,609	322,037	183,543
- Term deposits with credit institutions	792,907	640,279	-	-	-
- Loans	71,528	-	547	995,442	89,135
- Receivables	510,039	89,155	39,971	6,745	-
- Other	54,898	138,466	138,971	248,847	63,262
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	342,950	615,939	1,478,420	1,413,891	5,639,869
- Treasury bonds	-	-	302,510	61,346	359,331
- Other debt securities	762	-	12,471	17,632	43,205
- Loans	-	-	-	34,598	-
- Shares listed on the regulated market	-	-	-	-	-
- Shares not listed on the regulated market	-	-	-	-	-
- Investment fund units	342,188	615,939	1,163,439	1,300,315	3,436,085
- Investment certificates	-	-	-	-	1,801,248
III. Inflows from other assets	53,438	2,441	3,237	2,766	41,056
C. Balance of projected cash flows (A + B)	196,260	110,888	(9,970)	844,724	1,074,897
D. Balance of accumulated cash flows	196,260	307,148	297,178	1,141,902	2,216,799

The projected net cash flows resulting from non-life insurance contracts concluded by the end of the financial year have been determined using statistical and actuarial mathematical methods, taking into account historical data. Inflows have been calculated on the basis of the gross premium. Outflows include all projected costs to be incurred by the insurance company in connection with insurance contracts concluded.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance as at 31 December 2015 was 3.3 (2.9 as at 31 December 2014), whereas the duration of technical provisions as at 31 December 2015 was 5.3 (5.8 as at 31 December 2014).

Life insurance

The table below presents the match between cash flows from technical provisions and liabilities under investment contracts with guaranteed and fixed terms and conditions, and the assets associated with them. The table does not present cash flows relating to unit-linked insurance products and investment contracts.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Item	Projected cash flows					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 year and up to 10 years	over 10 year and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(791,451)	(221,366)	(950,599)	(1,297,562)	(4,152,117)	(5,995,992)
I. Outflows	(1,645,098)	(1,043,553)	(6,755,642)	(6,886,259)	(11,129,464)	(9,691,369)
II. Inflows	853,647	822,187	5,805,043	5,588,697	6,977,347	3,695,377
B. Inflows from assets covering technical provisions	2,600,370	851,129	5,572,275	7,864,938	4,113,273	5,942,597
I. Future inflows whose value is known as at the end of reporting year	2,600,367	849,904	5,568,194	6,175,346	4,113,047	2,066,292
- Treasury bonds	1,898,822	637,233	4,977,294	6,097,443	4,113,047	2,066,292
- Other debt securities	6,152	2,766	151,503	18,261	-	-
- Term deposits with credit institutions	695,372	209,884	166,529	57,535	-	-
- Loans	21	21	272,868	2,107	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	3	1,225	4,081	1,689,592	226	3,876,305
- Treasury bonds	-	94	-	-	-	-
- Other debt securities	-	1,128	4,061	902	226	-
- Loans	3	3	20	20	-	-
- Investment fund units	-	-	-	-	-	3,876,305
- Investment certificates	-	-	-	1,688,670	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	1,808,919	629,763	4,621,676	6,567,376	(38,844)	(53,395)
D. Balance of accumulated cash flows	1,808,919	2,438,682	7,060,358	13,627,734	13,588,890	13,535,495

The forecast of future claims and future net premiums in life insurance takes into account assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance as at 31 December 2015 was 5.2 (4.9 as at 31 December 2014), whereas the duration of technical provisions as at 31 December 2015 was 19.4 (22.4 as at 31 December 2014).

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Banking activity

The below table presents the analysis of maturity of Alior Bank assets and liabilities as per contractual dates. The amounts are expressed in PLN milion.

31 December 2015	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	Total
Assets	**7,249**	**519**	**937**	**1,314**	**2,893**	**4,449**	**8,469**	**14,174**	**40,003**
Cash and Nostro	2,090	-	-	-	-	-	-	-	2,090
Receivables from banks	-	122	-	-	-	184	-	-	306
Receivables from clients	5,160	382	919	1,065	2,322	3,024	6,328	11,722	30,922
Securities	-	15	17	249	570	1,241	2,141	633	4,867
Other assets	-	-	-	-	-	-	-	1,819	1,819
Liabilities and equity	**(13,938)**	**(6,780)**	**(5,391)**	**(4,881)**	**(1,876)**	**(1,534)**	**(1,224)**	**(4,378)**	**(40,003)**
Liabilities to banks	(11)	(804)	-	-	-	(203)	(43)	-	(1,061)
Liabilities to clients	(13,927)	(5,098)	(5,385)	(4,622)	(1,687)	(621)	(47)	(17)	(31,404)
Own issues	-	-	(6)	(259)	(189)	(710)	(1,135)	(847)	(3,145)
Equity	-	-	-	-	-	-	-	(3,514)	(3,514)
Other liabilities	-	(878)	-	-	-	-	-	-	(878)
Balance-sheet gap	**(6,689)**	**(6,262)**	**(4,454)**	**(3,567)**	**1,017**	**2,915**	**7,244**	**9,795**	**-**
Accumulated balance-sheet gap	**(6,689)**	**(12,951)**	**(17,405)**	**(20,972)**	**(19,955)**	**(17,040)**	**(9,795)**	**-**	
Derivative instruments - inflows	-	2,455	763	536	1,722	1,108	407	60	7,052
Derivative instruments - outflows	-	(2,428)	(753)	(551)	(1,721)	(1,087)	(404)	(59)	(7,002)
Derivative instruments - net	**-**	**27**	**10**	**(15)**	**2**	**22**	**3**	**1**	**50**
Guarantee and financial lines	8,639	3	9	37	134	98	2	20	8,942
Off-Balance-sheet gap	**8,639**	**30**	**19**	**22**	**136**	**120**	**5**	**21**	**8,991**
Total gap	**1,950**	**(6,232)**	**(4,435)**	**(3,545)**	**1,153**	**3,035**	**7,249**	**9,817**	**8,991**
Total accumulated gap	**1,950**	**(4,283)**	**(8,718)**	**(12,263)**	**(11,110)**	**(8,075)**	**(826)**	**8,991**	

Additionally, Alior Bank carries out liquidity stress tests, prepares a plan to raise funds in emergency situations, and determines and verifies the rules for the sale of liquid assets, taking into account the cost of maintaining liquidity. In accordance with the resolution of the PFSA, Alior Bank determines:

- a short-term liquidity gap (minimal current excess liquidity) defined as the difference between the sum of primary and supplementary value of liquidity reserves on the reporting day and the value of unstable external funds. As of 31 December 2015, the value of the excess liquidity was PLN 1,880 million.
- the non-liquid funds to own funds cover ratio, calculated as the ratio of bank's own funds less the aggregate value of capital requirements for market risk, delivery settlement risk, and counterparty risk to non-liquid assets. As of 31 December 2015, the value of the ratio was 4.72;
- non-liquid and limited liquidity assets to own funds and stable external funds ratio, calculated as the quotient of the total of own funds, less the total value of the capital requirements for market risk, delivery settlement risk, counterparty risk and stable external funds to the sum of non-liquid assets and limited liquidity assets. As of 31 December 2015, the value of the ratio was 1.11;
- a short-term liquidity ratio, defined as the ratio of the sum of primary and supplementary liquidity reserves on the reporting day to the value of unstable external funds. As of 31 December 2015, the value of the ratio was 1.53.

Alior Bank conducts also an in-depth analysis of the stability and structure of the funding sources, including the core and concentration level of term deposits and current accounts. Additionally, it monitors the variability of the balance sheet and off-balance sheet items, in particular the values of the expected outflows arising from the guarantees granted to its customers.

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, 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

Each month, Alior Bank analyzes the concentration of the deposit base, which aims to identify the potential risks of excessive dependence on funding sources characterized by a low degree of diversification. In order to estimate the concentration level, the Bank sets a high concentration indicator by calculating the ratio of the funds accumulated by the largest depositaries to the value of the deposit base. As of 31 December 2015, the ratio was 2.22%, which indicates a lack of concentration.

In order to reduce the concentration risk, Alior Bank diversifies its structure of the deposit base, dividing its clients into retail, business, financial, central and local government institutions, and monitors the monthly share of each of these groups in the total deposit base.

The management of concentration risk arising from lending activities concerns the risks arising from, among other things:

- exposures to individual entities or entities related by capital or management;
- exposures to entities in the same industry, economic sector, carrying out the same business activity or trading in similar products;
- exposures to entities from the same voivodeship, as well as from the same countries or groups of countries;
- exposures secured by the same kind of collateral or secured by the same collateral provider (including the risks arising from collaterals established on securities with similar characteristics);
- exposures in the same currency;

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

- exposures to entities referred to in Article 71 of the Polish Banking Act;
- product data sheet;
- customer segment;
- distribution channel;
- special offers and promotions;
- internal concentration.

In order to prevent adverse events resulting from excessive concentration, Alior Bank reduces concentration risk by setting limits and using concentration standards, both the ones arising from external regulations and the ones that were adopted internally. These include i.a.:

- principles for identifying credit concentration risk areas;
- a process for determining and updating the concentration limits;
- a process for managing the limits, including the manner of proceeding if the permitted limit level is exceeded;
- a process for monitoring concentration risk;
- control of the process of concentration risk management.

The following table shows the industry concentration of Alior Bank's balance sheet and off-balance sheet exposures, divided by sections of the Polish Classification of Activity (PKD), which takes into account:

- the credit amount (balance sheet and off-balance sheet exposures without interest, fees and write-offs), decreased by the value of the paid cash deposits;
- unauthorized overdrafts in current accounts;
- the treasury limits decreased by the value of the paid deposits, including debt securities whose issuer is an entity of the given section.

Section name as per Classification of Business Activities in Poland	31 December 2015
Industrial processing	4,275,844
Construction	3,707,790
Wholesale and retail, repair of motor vehicles, including motorcycles	3,433,278
Real estate activities	3,379,837
Production and distribution of electricity, gas, steam and air conditioning	1,889,519
Accommodation and food service activities	1,568,126
Financial and insurance activity	1,178,549
Other	3,697,167
Total	**23,130,110**

The following factors are taken into account during the process of setting and updating concentration limits:

- reliable economic and market information related to each of the exposure concentration areas, in particular, macroeconomic ratios, industry ratios, and information on business trends, taking into account projections of the value of interest rates, foreign exchange rates, political risk analyses, ratings of governments and financial institutions;
- reliable information on business position of entities, industries, branches, business sectors, overall economic information, including on the economic and political position of countries, and other information necessary to assess the concentration risk;
- business and qualitative information relating to the management process within the entities to which the Bank is exposed, which leads to concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures, which may lead to an increase in concentration risk.

The Bank analyzes risk both on an individual and on a portfolio level. The actions taken by the Bank result in:

- minimizing the credit risk of individual loans at a predetermined rate of return;
- reducing the total credit risk resulting from owning a specific credit portfolio.

As part of the process of minimizing risk of individual exposures, the following factors are assessed whenever the Bank grants a loan or another credit product:

- creditworthiness and credit rating of the exposure, taking into consideration, among other things, a detailed analysis of the sources of its repayment;
- collateral, including verifying their formal, legal and economic status, taking into consideration, among other things, LTV (loan to value) adequacy.

In order to improve the risk control over individual exposures, Alior Bank regularly monitors its clients, taking appropriate mitigating actions in the event of identifying increased risk factors.

In terms of minimizing the level of credit risk arising from owning of a specific portfolio, the Bank:

- determines and controls concentration limits;
- monitors early warning signals;
- regularly monitors the credit portfolio, controlling all material credit risk parameters;
- regularly performs stress tests.

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 DZ, CBD BR, BIK, BIG) and Alior Bank 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

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 2015 amounted to PLN 994 million. In the case of credits for which no impairment was reported in 2015, it amounted to PLN 13,600 million. The impact of non-recognition of collateral value on the level of impairment losses as at 31 December 2015 would amount to PLN 124 million for impairment losses and 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 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	700,449
	2	691,423
	3	808,399
	4	887,246
	5	51,867
	6	6,851
Borrowings, cash loans, Credit cards, overdraft in current and saving account - standard procedure		
(K1 – the best class, K10 – the worst class)	K1	341,778
	K2	426,684
	K3	795,538
	K4	1,084,859
	K5	1,227,531
	K6	1,034,654
	K7	561,920
	K8	201,861
	K9	40,719
	K10	3,809
Mortgage loans		
(M1 – the best class, M10 – the worst class)	M1	2,818
	M2	21,767
	M3	103,571
	M4	381,809
	M5	935,591
	M6	1,254,284
	M7	940,449
	M8	613,014
	M9	233,637
	M10	54,473
No scoring		2,151,619
Total retail segment		**15,558,620**
Business segment		

Long-term products, Car loans, Limit in current account		
(1 – the best class, 5 – the worst class)	1	7,785
	2	11,784
	3	16,478
	4	6,172
	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	21
	Q02	13,370
	Q03	195,015
	Q04	190,236
	Q05	17,095
	Q06	1,074,832
	Q07	402,377
	Q08	161,978
	Q09	1,038,925
	Q10	209,023
	Q11	1,293,114
	Q12	709,894
	Q13	521,595
	Q14	992,276
	Q15	355,544
	Q16	694,126
	Q17	674,844
	Q18	288,928
	Q19	626,156
	Q20	163,146
	Q21	89,767
	Q22	51,762
	Q23	71,686
	Q24	2,108
	Q25	44,906
No rating		687,318
Total business clients		**10,612,261**
Receivables not overdue and without impairment		**26,170,881**
Receivables not overdue and with recognized impairment		**152,849**
Retail segment		37,337
Business segment		115,512
Total not overdue receivables from clients		**26,323,730**

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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

As at the date of consolidating Alior Bank Group, the credit receivables of clients towards Alior Bank were measured at fair value. An analysis of involvement 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 2015
Retail segment	**100,422**
without recognized impairment	50,279
with recognized impairment	79,575
IBNR [1)]	(212)
impairment losses	(29,220)
assessed using the case-by-case method	(16,672)
assessed using the portfolio method	(12,548)
Business segment	**255,597**
without recognized impairment	131,887
with recognized impairment	230,518
IBNR [1)]	(26)
impairment losses	(106,782)
assessed using the case-by-case method	(90,487)
assessed using the portfolio method	(16,295)
Total net receivables	**356,019**

[1)] Provision 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 2015
With recognized impairment	174,091
including value of collateral	124,648
Without recognized impairment	181,928
including value of collateral	97,742
not overdue	85,305
overdue	96,623
Total net receivables	**356,019**

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). 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.

Degree of 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.

Reports presenting assets exposed to credit risk do not include 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Assets exposed to credit risk as at 31 December 2015	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		996,787	7,583	33,389,390	2,930,295	1,005,990	596,027	1,533,680	40,459,752
- held to maturity	35.1	-	-	17,146,791	137,859	79,058	6,418	-	17,370,126
- available for sale	35.2	519,011	-	5,830,345	384,648	94,046	317,700	-	7,145,750
- measured at fair value	35.3	477,776	7,583	10,208,680	422,146	530,646	32,758	1,533,680	13,213,269
- loans	35.4	-	-	203,574	1,985,642	302,240	239,151	-	2,730,607
Deposits with credit institutions and buy sell-back transactions	35.4	-	-	4,900,606	2,914,301	6,553	498,917	91,407	8,411,784
Other loans	35.4	-	-	68,096	-	158,805	1,702,144	-	1,929,045
Derivative instruments	35.3 8.5.2	-	66,641	762,776	47,499	-	236,038	-	1,112,954
Reinsurers' share in net claim provisions	31	-	353,232	310,385	534	-	93,446	-	757,597 [1)]
Reinsurance receivables	38	-	8,436	21,677	1,223	-	17,687	-	49,023
Total		**996,787**	**435,892**	**39,452,930**	**5,893,852**	**1,171,348**	**3,144,259**	**1,625,087**	**52,720,155**

[1)] including PLN 139,578 thousand of instruments presented as transactions hedging cash flows.

Assets exposed to credit risk as at 31 December 2014	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		-	-	33,685,106	2,415,765	310,188	127,229	1,474,900	38,013,188
- held to maturity	35.1	-	-	19,933,317	50,372	-	-	-	19,983,689
- available for sale	35.2	-	-	2,141,329	261,139	-	32,397	-	2,434,865
- measured at fair value	35.3	-	-	10,533,633	326,441	208,738	60,367	1,474,900	12,604,079
- loans	35.4	-	-	1,076,827	1,777,813	101,450	34,465	-	2,990,555
Deposits with credit institutions and buy sell-back transactions	35.4	-	-	7,195,733	1,746,022	-	370,061	82,138	9,393,954
Other loans	35.4	-	-	-	-	256,763	2,053,209	-	2,309,972
Derivative instruments	35.3	574	14,725	516,252	3,073	-	11,779	-	546,403
Reinsurers' share in net claim provisions	31	-	208,856	174,539	12,175	-	55,372	-	450,942
Reinsurance receivables	38	-	5,308	12,730	491	-	10,153	-	28,682
Assets held for sale		**-**	**-**	**305,937**	**-**	**-**	**-**	**-**	**305,937**
- Debt instruments	41	-	-	217,852	-	-	-	-	217,852
- Bank deposits	41	-	-	88,085	-	-	-	-	88,085
Total		**574**	**228,889**	**41,890,297**	**4,177,526**	**566,951**	**2,627,803**	**1,557,038**	**51,049,078**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

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 2015	0.74	0.82	1.51	4.06	13.74	25.91
Ratio (%) for 2014	0.74	0.84	1.59	4.33	14.39	26.97

[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 2015 amounted to PLN 1,821,601 thousand (PLN 1,639,172 thousand as at 31 December 2014; after applying the coefficients of 31 December 2015, the risk would amount to PLN 1,562,795 thousand).

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 2015, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 3,005 million (PLN 2,673 million as at 31 December 2014).

Reinsurance (from the credit risk perspective of the reinsurer) for 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

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 2015	Rating assigned by Standard&Poor's as at 31 December 2015
Reinsurer 1	98,136	A+
Reinsurer 2	70,675	AA-
Reinsurer 3	64,998	AA-
Reinsurer 4	58,238	AA-
Reinsurer 5	48,182	no rating
Reinsurer 6	46,761	AA-
Reinsurer 7	39,635	AA-
Reinsurer 8	31,699	AA-
Reinsurer 9	27,090	AA
Reinsurer 10	23,444	A+
Reinsurer 11	22,064	A-
Reinsurer 12	21,457	A+
Reinsurer 13	20,764	AA-
Reinsurer 14	18,806	AA
Reinsurer 15	16,554	AA+
Reinsurer 16	15,923	A
Reinsurer 17	15,837	AA-
Reinsurer 18	14,868	no rating
Reinsurer 19	13,810	A
Reinsurer 20	12,265	A+
Others [1]	415,646	
Total	**1,096,852**	

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 2014	Rating assigned by Standard&Poor's as at 31 December 2014
Reinsurer 2	69,490	AA-
Reinsurer 6	50,938	AA-
Reinsurer 12	50,069	A+
Reinsurer 3	46,689	AA-
Reinsurer 7	45,389	AA-
Reinsurer 4	25,556	AA-
Reinsurer 8	20,969	A+
Reinsurer 13	19,689	A+
Reinsurer 11	16,185	BBB+
Reinsurer 18	15,355	no rating
Reinsurer 14	14,803	AA
Reinsurer 10	14,549	A+
Reinsurer 21	14,125	A+
Reinsurer 17	13,603	AA-
Reinsurer 22	12,349	A+
Reinsurer 15	11,126	AA+
Reinsurer 23	10,592	no rating
Reinsurer 24	10,369	AA+
Reinsurer 25	9,736	A
Reinsurer 26	9,183	no rating
Others [1]	292,215	
Total [2]	**772,979**	

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

[2] PLN 753,115 thousand was reported in the consolidated statement of financial position in "Reinsurers' share in technical provisions", and PLN 19,864 thousand was reported in "Assets held for sale". Additional information concerning assets held for sale has been presented in 42.

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 26 August 2013, the Management Board and the Supervisory Board adopted the capital policy and dividend policy for PZU Group for the years 2013–2015. Assumptions of the capital policy and dividend policy are presented below.

PZU Group intends to make changes in its capital policy and dividend policy aimed at addressing the requirements of Solvency II.

Due to a short period of time which passed between the date of taking control over Alior Bank (18 December 2015) and the date of publication of the consolidated financial statement, from the day of acquiring control by PZU Group to the date of publishing consolidated financial statements, equity management in Alior Bank was performed separately from equity management in other entities within PZU Group. Nevertheless, PZU Group may monitor equity management system at Alior Bank through the members of the supervisory board designated by PZU.

9.1 Capital policy

The PZU Group's Capital Policy in 2013–2015 is intended to increase Total Shareholder Return (TSR) and is based on the following rules:

- managing the PZU Group's capital (including surplus capital) at the PZU level;
- maintaining the PZU Group's shareholder funds net of subordinated debt at a level no lower than a 250% solvency margin for PZU Group and striving to maintain the PZU Group's shareholder funds including subordinated debt at approximately a 400% solvency margin (as at the end of the financial year), to maintain the PZU Group's financial security;
- maintaining assets to cover the provisions in PZU and PZU Życie at a level no lower than 110%;
- obtaining an optimal financing structure by replacing the capital surplus with subordinated debt up to an amount no higher than PLN 3 billion, not to exceed a 25% cap of shareholder funds to cover the solvency margin as referred to in article 148 of the Act on Insurance Activity;
- retaining equity at a level corresponding to a AA rating according to Standard&Poor's methodology;

- providing funds for development and acquisitions in the upcoming years;
- no equity issues by PZU in the upcoming years.

9.2 Dividend policy

On 13 May 2014, the Management Board of PZU decided to update the capital and dividend Policy of PZU Group for the years 2013–2015 ("Policy"). At the same time, the Management Board of PZU decided to file a request to the Supervisory Board of PZU to adopt a resolution to approve the update of the Policy.

9.3 Equity management in Alior Bank

In the equity management process at Alior Bank, management board and supervisory board of Alior Bank, as well as the risk management committee play the key role.

The Management Board of Alior Bank drafts and implements the process of assessing internal capital, capital planning and management, as well as reviews and supervises internal capital adequacy assessment process (ICAAP). The competences of Alior Bank supervisory board include approving procedures related to internal capital assessment, as well as capital planning and management.

The ICAAP at Alior Bank, including risk review process and methods of internal capital assessment on key risk types, as well as monitoring capital targets, limits for credit allocation and limits for total capital ratio and Tier 1 capital ratio, is supervised by risk management committee.

9.4 External capital requirements

9.4.1. Insurance activity

Equity management involves, among others, monitoring of the insurers' key solvency parameters, such as the level of own funds and the degree to which such funds are sufficient to cover the required solvency margin and the guarantee capital. The International Financial Reporting Standards do not lay down principles applicable to calculation of the required solvency margin or own funds covering the above margin.

Until the end of 2015, in accordance with the Act on Insurance Activity, an insurance company with its registered office on the territory of the Republic of Poland was obliged to maintain its own funds at an amount of no less than the solvency margin and no less than the guarantee capital.

In order to determine the value of own funds, assets were reduced by the value of intangible assets, deferred tax assets, assets allocated to settle all expected liabilities, as well as shares and other assets (subordinated loans granted) used to finance the equity of insurance companies operating within the insurance capital group. The value determined in the above manner was adjusted in proportion to the shares held by PZU by the total surplus or shortage of own funds of the controlled insurance companies over their solvency margins.

The principles of calculating own funds to cover the solvency margin are specified in the Act on Insurance Activity and the principles for calculation of the required solvency margin and the minimum value of the guarantee capital have been laid down in the Solvency Margin Ordinance.

Calculation of own funds and solvency marginal includes financial data in accordance with PAS.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Presented below is the calculation of own funds covering the required solvency margin of PZU.

Calculation of own funds to cover the required solvency margin	31 December 2015	31 December 2014
PZU equity	**12,378,733**	**12,328,724**
Intangible assets	(362,167)	(283,999)
Value of assets used to finance equity of other insurance companies operating within the insurance capital group of PZU	(5,853,666)	(6,065,985)
Change in deferred tax assets	(459,105)	(408,388)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	**2,135,034**	**2,411,116**
PZU Życie SA 100.00%	1,914,227	2,213,301
Own funds	3,716,335	3,996,487
Required solvency margin	1,802,108	1,783,186
Surplus of own funds to cover the required solvency margin	1,914,227	2,213,301
Link4 SA 100.00%	85,374	55,638
Own funds	162,363	124,938
Required solvency margin	76,989	69,300
Surplus of own funds to cover the required solvency margin	85,374	55,638
TUW PZUW 100.00%	13,903	n/a
Own funds	25,857	n/a
Required solvency margin	11,954	n/a
Surplus of own funds to cover the required solvency margin	13,903	n/a
Lietuvos Draudimas AB 99.98%	109,198	127,853
Own funds	227,892	214,515
Required solvency margin	118,672	86,636
Surplus of own funds to cover the required solvency margin	109,220	127,879
AAS Balta 99.99%	30,798	22,216
Own funds	80,462	62,207
Required solvency margin	49,661	39,989
Surplus of own funds to cover the required solvency margin	30,801	22,218
UAB DK PZU Lithuania 99.88% (as at 31 December 2014)	n/a	4,692
Own funds	n/a	76,220
Required solvency margin	n/a	71,522
Surplus of own funds to cover the required solvency margin	n/a	4,698
UAB PZU Lietuva Gyvybes Draudimas 99.34%	1,786	5,696
Own funds	17,737	21,504
Required solvency margin	15,939	15,770
Surplus of own funds to cover the required solvency margin	1,798	5,734
PrJSC PZU Ukraine 100.00%	(12,589)	(12,314)
Own funds	5,466	5,199
Required solvency margin	18,055	17,513
Surplus/shortage of own funds to cover the required solvency margin	(12,589)	(12,314)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(7,663)	(5,966)
Own funds	8,276	9,437
Required solvency margin	15,939	15,403
Surplus/shortage of own funds to cover the required solvency margin	(7,663)	(5,966)
Own funds of PZU	**7,838,829**	**7,981,468**
Required solvency margin of PZU	1,424,278	1,362,353
Guarantee capital of PZU	474,759	454,118
Surplus of own funds to cover the required solvency margin	**6,414,551**	**6,619,115**
Surplus of own funds to cover the guarantee capital	**7,364,070**	**7,527,350**

10 November 2015, a new Act on Insurance and Reinsurance was published (Journal of Laws of 2015, item 1844), aimed at implementing the Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance ("Solvency II"). The Act comes into force on 1 January 2016. Under the new Act, the calculation of capital requirements is based on market risk, actuarial (insurance) risk, counterparty risk, catastrophic risk and operational risk. Assets, liabilities and, consequently, own funds covering the capital requirement will be measured at fair value. PZU Group has estimated its capital requirements and own funds

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

according to the principles of Solvency II, based on data as at 30 September 2015, and determined a significant surplus of own funds that exceed the capital requirement (information not audited).

9.4.2. Bank activity

The purpose of capital management in bank activity is to maintain proper value of own funds and Tier1 capital for risk coverage, in accordance with the assumed risk appetite. As part of risk appetite, expected risk coverage levels of a potential unexpected loss caused by individual risk types specified in CRR provisions by own funds and Tier1 capital are determined, as well as by individual risk type identified in the course of assessing adequacy of internal capital. Potential unexpected loss is determined using regulatory capital which is defined using methodology specified in CRR as well as using internal capital.

Solvency ratio and Tier1 ratio as at 31 December 2015 was calculated in accordance with CRR. Until the date of preparation of the consolidated financial statements, part of regulations concerning on determining own funds and capital requirements (the so-called national options) was not adopted and published by PFSA. To calculate the solvency ratio within the non-regulated scope, a prudent approach was adopted with respect to, among others, percentage values in the transition period and risk weights towards currency exposures secured by mortgages for which this assumption was indicated by PFSA as potential "national options". When "national options" are determined and published, the capital ratio for bank activity could be different than the one presented in the consolidated financial statements.

Own funds and solvency ratio	31 December 2015
Total own funds for solvency ratio calculation	**3,853,305**
Core capital Tier I (CET1)	**2,975,899**
Supplementary capital Tier II	**877,406**
Capital requirements	**2,457,567**
Tier 1 ratio	**9.69%**
Solvency ratio	**12.54%**

As at 31 December 2015, Alior Bank Group fully followed the regulations of the Capital Requirements Regulation (CRR), including own funds account and calculating capital requirements due to selected risk types.

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt instruments and loans

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

The fair value of debt instruments for which an active loan market does not exist 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 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 traded on an active market, fair value shall be the closing price on the trading date.

The fair value of derivatives not quoted 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 the companies in PZU Group based on internal measurement models.

10.1.4. Loan receivables from clients

Fair value of receivable from clients (excluding overdrafts) is determined by comparing the margins generated by newly granted credits (in the month preceding the data of preparation of consolidated financial statements) 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 a loan 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.

Due to the fact that settlement of Alior Bank acquisition recognized in consolidated financial statements is of a makeshift nature, fair value of receivables from clients was adopted on the basis of data represented in the consolidated financial statements of Alior Bank Group. Under the purchase price allocation process, a new model of calculating fair value will be developed. After the works have been completed, the fair value of these assets will be calculated in accordance with the new model.

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 to clients

Since deposits are collected as part of daily 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 current credit spreads.

10.1.6.3. Liabilities due to unit-linked investment contracts

Liabilities due to 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).

10.2 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.
  - 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.
  - 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);

- derivatives other than listed ones;
- 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 in consolidated investment funds;

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

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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Assets and liabilities measured at fair value as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Financial assets available for sale	6,687,993	1,039,980	-	7,727,973
Equity instruments	195,689	386,534	-	582,223
Debt instruments	6,492,304	653,446	-	7,145,750
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	13,107,367	138,093	-	13,245,460
Equity instruments	2,274,757	109,797	-	2,384,554
Debt instruments	10,832,610	28,296	-	10,860,906
Financial instruments measured at fair value through profit or loss – held for trading	3,341,659	4,061,284	-	7,402,943
Equity instruments	1,053,043	3,024,161	-	4,077,204
Debt instruments	2,278,680	73,683	-	2,352,363
Derivative instruments	9,936	963,440	-	973,376
Hedging derivatives	-	139,578	-	139,578
Investment property	-	117,305	1,054,416 [1)]	1,171,721
Assets held for sale	-	89,808	1,413,486 [1)]	1,503,294
Liabilities				
Derivative instruments	36,078	904,406	-	940,484
Liabilities to participants of consolidated investment funds	-	656,449	-	656,449
Unit-linked investment contracts	-	392,914	-	392,914

[1)] Decreased value of investment property results from classifying a part of properties as assets held for sale. Additional information about this matter is presented in Note 41

Assets and liabilities measured at fair value as at 31 December 2014	Level I	Level II	Level III	Total
Assets				
Financialassets available for sale	2,523,930	458,234	-	2,982,164
Equity instruments	357,732	189,567	-	547,299
Debt instruments	2,166,198	268,667	-	2,434,865
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	12,503,393	67,744	-	12,571,137
Equity instruments	1,444,157	38,440	-	1,482,597
Debt instruments	11,059,236	29,304	-	11,088,540
Financial instruments measured at fair value through profit or loss – held for trading	2,990,261	3,535,086	-	6,525,347
Equity instruments	1,572,464	2,890,941	-	4,463,405
Debt instruments	1,415,953	99,586	-	1,515,539
Derivative instruments	1,844	544,559	-	546,403
Investment property	-	161,092	2,074,970	2,236,062
Assets held for sale		69,259	60,001	129,260
Liabilities				
Derivative instruments	19,032	606,812	-	625,844
Liabilities to participants of consolidated investment funds	-	856,865	-	856,865
Unit-linked investment contracts	-	587,267	-	587,267

[1)] Additional information concerning assets held for sale has been presented in Note 41

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Level III investment property	31 December 2015	31 December 2014
Office property	551,163	929,977
Commercial property	-	230,270
Warehouse property	486,660	891,690
Other	16,593	23,033
Level III investment property, total	**1,054,416** [1)]	**2,074,970**

[1)] Decreased value of investment property results from classifying a part of properties as assets available for sale. Additional information about this issue is presented in Note 41.

Assets and liabilities whose fair value is disclosed as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	55,283	-	-	55,283
Financial assets held to maturity	19,665,121	155,209	-	19,820,330
Loans				
Debt instruments	-	2,768,285	-	2,768,285
Loan receivables from clients	-	-	30,331,615	30,331,615
Loans	-	1,926,664	-	1,926,664
Liabilities				
Liabilities to banks	-	475,809	124,831	600,640
Liabilities to clients	-	-	33,665,013	33,665,013
Liabilities arising from the issue of banking securities (Alior Bank)		2,301,507		2,301,507
Liabilities arising from the issue of own debt instruments	-	3,573,225	-	3,573,225
Subordinated liabilities (Alior Bank)	-	758,560	-	758,560
Investment contracts with guaranteed and fixed terms and conditions	-	152,502	-	152,502

Assets and liabilities whose fair value is disclosed as at 31 December 2014	Level I	Level II	Level III	Total
Assets		-	-	
Entities measured using the equity method – EMC	52,737			52,737
Financial assets held to maturity	20,443,747	3,080,645	-	23,524,392
Loans				
Debt instruments – loans portfolio	-	3,091,685	-	3,091,685
Loans	-	2,398,454	-	2,398,454
Liabilities				
Liabilities arising from the issue of own debt instruments	-	2,180,294	-	2,180,294
Investment contracts with guaranteed and fixed terms and conditions	-	520,383	-	520,383

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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 transferred between Levels I and II.

Both in 2015 and 2014, there were no significant transfers between Levels I and II and to or from Level III.

Elements of assets or liabilities are transferred 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 (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 financial year, according to the value at that date.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

10.4 Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy

Change in the balance of investment property categorized within Level III of the fair value hierarchy	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	2,074,970	1,312,329
Acquisition	268,919	667,058
Reclassification from own property	2,942	33,964
Profits or losses disclosed in profit or loss as:	85,752	76,391
- net profit/loss on realization and impairment loss on investments	-	(693)
- net change in the fair value of assets and liabilities measured at fair value	85,752	77,084
Profits or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	-	8,725
Reclassification to own property	(29,644)	-
Reclassification to assets held for sale	(1,347,832)	(10,786)
Disposal	-	(15,307)
Change in group composition	-	3,481
Exchange differences	(691)	(885)
Closing balance	**1,054,416**	**2,074,970**

Property classified to Level III of the fair value

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data As at 31 December 2015	Ranges of unobservable data As at 31 December 2014
1.	Office complex, Wrocław	273,500	276,220	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 (office space) Capitalization rate	EUR 14.25 – 15.50 1)	EUR 14.25 – 15.50 1)
2.	Warehouse park, Bielany Wrocławskie	214,900	88,830	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.20 1) 2)	EUR 8.00 – 9.00 EUR 2.40 – 4.20 1) 2)
3.	Office building, Warsaw	155,100	156,000	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 11.70 – 14.10 EUR 70.00 – 150.00 1)	EUR 12.00 – 15.00 EUR 70.00 – 150.00 1)
4.	Warehouse park under construction, Komorniki	118,900	101,190	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1) 2)	EUR 8.50 – 9.00 EUR 2.30 – 4.20 1) 2)
5.	Warehouse park under construction, Sosnowiec Pieńki	115,700	n/a	Mixed approach with the use of the residual method	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.50 – 4.00 1) 2)	n/a n/a n/a n/a
6.	Office building, Warsaw	114,100	115,330	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 10.09 – 12.91 EUR 35.20 – 84.48 1)	EUR 11.50 – 14.50 EUR 55.00 – 85.00 1)

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data As at 31 December 2015	Ranges of unobservable data As at 31 December 2014
7.	Warehouse park under construction, Sosnowiec	37,160	n/a	Mixed approach with the use of the residual method	Monthly rental rate per 1 m2 (office space) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate Construction costs	EUR 7.50 – 9.00 EUR 2.90 – 4.30 1) 2)	n/a n/a n/a n/a
8.	Office building under construction, Wrocław	7,160	4,250	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Capitalization rate Construction costs	EUR 11.00 – 15.50	EUR 11.00 – 15.50
9.	Other	17,896	1,333,150 3)	n/a	n/a	n/a	n/a
	Total	**1,054,416**	**2,074,970**				

1) Capitalization rate was established upon the analysis of return rates in transactions concerning similar properties and with consideration of risk perception by potential investors on the real property market
2) The value of construction costs was determined based on market cost of construction less costs incurred as at the measurement date.
3) Investment properties at the value of PLN 1,280,130 thousand were re-classified to assets held for sale. Additional information about this issue is presented in Note 41.

Measurement of Level III real property is sensitive to changes in parameters used for measurement purposes and the aforesaid parameters depend on the macroeconomic environment (e.g. economic growth, inflation rate, interest rates), supply and demand on individual local property markets (taking into account both the lease market and the demand for complete items of real property, expressed by financial investors). The parameters used for measurement purposes may be interrelated, whereas the dependence is not fixed and may change depending on the market conditions.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

10.5 Changes in fair value measurement of financial instruments measured at fair value

In 2015 and 2014, there were no changes introduced to the method of determining fair value of financial instruments measured at fair value, the value of which is significant from the consolidated financial statements perspective.

Fair value of financial instruments recognized in consolidated statement of financial position which result from consolidation of Alior Bank has been specified on the basis of methods described above.

10.6 The highest and best use of a non-financial asset vs. its current use

In the case of one investment property with the carrying value of PLN 3,201 thousand (as at 31 December 2014: PLN 2,822 thousand), its current use was not the most significant and best use; however, the carrying amount takes into account its most significant and best use.

The estate is a land with a structure that requires demolition and an optimal use is to build new facilities.

11. Gross written premiums

Gross written premiums	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Gross written premium – non-life insurance	10,362,520	8,999,205
In direct insurance	10,036,342	8,905,802
In indirect insurance	326,178	93,403
Gross written premium – life insurance	7,996,524	7,885,434
Individual premiums	3,241,407	3,256,968
Group insurance premiums	4,755,117	4,628,466
Total gross written premiums	**18,359,044**	**16,884,639**

In 2015 and 2014, the life insurance entities did not engage in reinsurance inwards.

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 2015**	**1 January - 31 December 2014**
Accident and sickness insurance (group 1 and 2)	614,925	527,989
Motor third-party liability insurance (group 10)	3,279,436	2,899,442
Other motor insurance (group 3)	2,626,730	2,209,647
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	60,822	77,015
Insurance against fire and other damage to property (groups 8, 9)	2,318,353	2,043,689
Third-party liability insurance (groups 11, 12, 13)	750,544	798,498
Credit insurance and suretyship (groups 14, 15)	90,510	97,884
Assistance (group 18)	314,340	248,180
Legal protection (group 17)	3,544	877
Other (group 16)	303,316 [1)]	95,984
Total	**10,362,520**	**8,999,205**

[1)] The increase results from written Premium in direct insurance.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

12. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2015	1 January - 31 December 2014
Pension contracts	**118,521**	**270,565**
Commission on handling fees	5,212	19,871
Asset management fee for open pension fund	99,822	112,100
Other	13,487	138,594,[1)]
Investment contracts	**8,842**	**12,282**
Fees from unit-linked investment contract	8,842	12,282
Other	**115,436**	**67,917**
Revenue and payments received from funds and investment fund management companies	115,436	67,917
Total revenue from commissions and fees	**242,799**	**350,764**

[1)] Including PLN 132,267 thousand due to liquidation of the additional part of the OPF PZU Guarantee Fund.

13. Net investment income

Net investment income	1 January - 31 December 2015	1 January - 31 December 2014
Interest income, including:	1,349,061	1,480,543
- financial assets available for sale	49,884	55,849
- financial assets held to maturity	931,857	961,401
- loans	363,872	439,660
- receivables, including insurance receivables	757	484
- cash and cash equivalents	2,691	23,149
Dividend income, including:	58,313	88,121
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	35,260	63,903
- financial assets held for trading	22,149	18,059
- financial assets available for sale	904	6,159
Income from investment property	212,170	137,428
Exchange differences, including:	78,455	58,321
- financial assets held to maturity	(15)	1,957
- financial assets available for sale	7,676	8,421
- loans	887	81,952
- receivables, including insurance receivables	9,160	21,210
- cash and cash equivalents	49,923	33,970
- financial liabilities	12,344	(79,171)
- other	(1,520)	(10,018)
Other, including:	(126,731)	(59,764)
- costs of investment activities	(31,202)	(24,512)
- investment property maintenance costs	(122,730)	(61,209)
- other	27,201	25,957
Total net investment income	**1,571,268**	**1,704,649**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

14. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	**1 January - 31 December 2015**	**1 January - 31 December 2014**
Net result on realization of investments	**(154,692)**	**380,284**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	87,723	317,227
- equity instruments	13,369	56,405
- debt instruments	74,354	260,822
Financial assets held for trading, including:	(142,136)	97,886
- equity instruments	(70,941)	(36,469)
- debt instruments	(29,515)	34,251
- derivatives	(41,680)	100,104
Financial assets available for sale, including:	9,944	21,071
- equity instruments	(26,035)	633
- debt instruments	35,979	20,438
Financial assets held to maturity, including:	(1,923)	1,371
- debt instruments held to maturity	(1,923)	1,371
Loans	7,726	(368)
Receivables, including insurance receivables	(51,407)	(56,733)
Cash and cash equivalents	(378)	-
Investment property	6,510	(170)
Result on the sale of PZU Lithuania	165,483 [1)]	-
Effect of consolidation of Alior Bank	(236,234)[1)]	-
Impairment losses	**(68,547)**	**46,863**
Financial assets available for sale, including:	-	(3,945)
- equity instruments	-	(3,945)
Loans	(51,644)	(10,242)
Debt instruments	(32,693)	(10,144)
Term deposits with credit institutions	(947)	-
Loans	(18,004)	(98)
Receivables, including insurance receivables	972	61,050[3)]
Cash and cash equivalents	(1,389)	-
Entities measured using the equity method – EMC	(16,486) [4)]	-
Net result on realization and impairment losses on investments	**(223,239)**	**427,147**

[1)] Additional information about sale of PZU Lithuania is presented in Note 2.4.1

[2)] The amount concerns revaluation of Alior Bank shares' package to fair value as at the moment of acquiring control. Additional information about the settlement of acquisition of Alior Bank SA is presented in Note 2.4.6.1.

[3)] Including reversal of receivables impairment losses in the amount of PLN 26,275 thousand due to a mortgage to Metro-Projekt Sp. z o.o. described in Note 54.6.

[4)] Additional information about EMC measurement and impairment tests is presented in Note 34

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

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 2015	1 January - 31 December 2014
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	299,235	415,951
- equity instruments	203,443	(160,394)
- debt instruments	100,616	615,929
- liabilities to participants of consolidated investment funds	(7,522)	(42,162)
- unit-linked investment contracts	2,698	2,578
Financial instruments held for trading, including:	16,432	22,945
- equity instruments	(24,687)	42,707
- debt instruments	46,737	83,448
- derivatives	(5,618)	(103,210)
Investment property	75,581 [1)]	76,215
Total net change in the fair value of assets and liabilities measured to fair value	**391,248**	**515,111**

[1)] Including PLN 4,326 thousand of change in fair value of property represented as assets held for sale.

16. Other operating income

Other operating income	1 stycznia - 31 grudnia 2015	1 stycznia - 31 grudnia 2014
Commission on claims representative services	6,443	7,162
Release of provisions	24,333 [1)]	34,773[2)]
Release of provisions for employee benefits	33,121	30,966
Reinsurers' commissions and share in reinsurers' profit	13,544	(6,613)
Revenues from sale of products, goods, and services by non-insurance companies	409,940	295,222
Revenues from direct claims handling regarding policies concluded with other insurance companies	188,516	69,381
Interest from overdue receivables in direct insurance and outward reinsurance	45,321	35,434
Other	82,214	71,308
Total other operating income	**803,432**	**537,633**

[1)] The item presents, among others, the effect of reversal of the provision for the Office of Competition and Consumer Protection penalties (PLN 11,290 thousand).
[2)] The item presents, among others, the effect of reversal of the provision for the costs of closing the IT GraphTalk project (PLN 28,785 thousand).

17. Insurance claims and change in technical provisions

Insurance claims and change in technical provisions	1 January - 31 December 2015	1 January - 31 December 2014
Claims, benefits and change in technical provisions – non-life insurance	6,416,539	5,866,427
Reinsurers' share in claims, benefits and change in technical provisions – non-life insurance	(425,564)	(191,284)
Claims, benefits and change in technical provisions – life insurance	5,866,386	5,866,801
Reinsurers' share in claims, benefits and change in technical provisions – life insurance	(259)	(236)
Total claims, benefits and change in technical provisions	**11,857,102**	**11,541,708**

17.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January - 31 December 2015	1 January - 31 December 2014
Gross claims and change in provisions in non-life insurance	**6,416,539**	**5,866,427**
Claims and claims handling expenses for the current period	3,886,621	3,154,034
Claims and claims handling expenses for previous periods	2,226,278	1,669,781

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in provision for outstanding claims	303,640	1,042,612
Reinsurers' share in claims and change in provisions in non-life insurance	**(425,564)**	**(191,284)**
Claims and claims handling expenses for the current period	(40,626)	(18,718)
Claims and claims handling expenses for previous periods	(57,564)	(67,478)
Change in provision for outstanding claims	(327,374)	(105,088)
Net claims and change in provisions in non-life insurance	**5,990,975**	**5,675,143**
Claims and claims handling expenses for the current period	3,845,995	3,135,316
Claims and claims handling expenses for previous periods	2,168,714	1,602,303
Change in provision for outstanding claims	(23,734)	937,524

17.2 Life insurance

Benefits in life insurance	1 January - 31 December 2015	1 January - 31 December 2014
Resulting from maturity	638,118	497,470
Resulting from benefits paid as a result of death	2,912,217	2,708,948
Resulting from morbidity	636,277	609,461
Resulting from resignation from the insurance contract	370,913	265,425
Resulting from disability and entitlement to a disability pension	5,097	4,889
Resulting from annuity benefits	40,046	41,657
Resulting from childbirth	330,666	322,564
Resulting from hospital treatment	316,627	300,846
Resulting from a refund of accumulated cash and transfer payments	100,259	281,834
Other	197,372	121,195
Total benefits in life insurance	**5,547,592**	**5,154,289**

17.3 Claims handling expenses

Claims handling expenses, by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	13,870	16,722
External services	233,023	189,921
Taxes and charges	26,715	20,037
Employee expenses	319,450	295,472
Depreciation of property, plant and equipment	12,630	11,820
Amortization of intangible assets	18,527	18,650
Other (by type), including:	159,560	119,981
- awarded costs, penal interest and penalties awarded in cases over claims	147,038	110,184
- other	12,522	9,797
Total claims handling expenses	**783,775**	**672,603**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

18. Interest expense

Interest expense	1 January - 31 December 2015	1 January - 31 December 2014
Sell buy-back transactions	68,209	105,975
Own debt instruments issued	37,655	15,676
Bank loans taken by PZU Group entities	4,394	8,908
Investment contracts with guaranteed and fixed terms and conditions	6,477	16,609
Other	698	117
Total interest expense	**117,433**	**147,285**

19. Acquisition expenses

Acquisition expenses, by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	29,278	28,754
External services	121,243	87,212
Taxes and charges	5,912	5,791
Employee expenses	511,482	406,247
Depreciation of property, plant and equipment	18,334	13,432
Amortization of intangible assets	29,691	19,111
Other (by type), including:	2,102,823	1,701,745
- commissions from direct activity	1,820,766	1,644,032
- advertisement	89,255	43,576
- commissions from indirect activity	185,363	6,543
- other	7,439	7,594
Change in deferred acquisition expenses	(442,458)	(115,268)
Total acquisition expenses	**2,376,305**	**2,147,024**

20. Administrative expenses

Administrative expenses by type	1 January - 31 December 2015	1 January - 31 December 2014
Consumption of materials and energy	56,344	36,708
External services	315,616	233,534
Taxes and charges	30,131	51,335
Employee expenses	804,479	775,232
Depreciation of property, plant and equipment	53,014	50,869
Amortization of intangible assets	46,273	38,365
Remuneration of people handling group insurance with companies	212,388	209,376
Other (by type), including:	139,633	132,280
- advertisement	78,999	88,941
- other	60,634	43,339
Total administrative expenses	**1,657,878**	**1,527,699**

Administrative expenses also include 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

21. Employee expenses

Employee expenses	1 January - 31 December 2015	1 January - 31 December 2014
Wages and salaries	1,397,889	1,247,136
Defined contributions plans, including:	304,070	262,903
- overheads	236,574	199,746
- third pillar pension plans, including costs of premiums to PPE incurred in the period	67,496	63,157
Other	69,565	76,673
Total employee expenses	**1,771,524**	**1,586,712**

As at 31 December 2015, 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 consolidated statement of profit or loss.

22. Other operating expenses

Other operating expenses	1 January - 31 December 2015	1 January - 31 December 2014
Costs of core business of companies not conducting neither insurance nor bank activity	432,196	307,172
Amortization of intangible assets acquired in business combinations	161,081	87,795
Costs from direct claims handling regarding claims on policies concluded with other insurance companies	193,388	73,051
Expenses due to prevention activities	92,366	68,234
Compulsory payments to the insurance market authorities	68,267	58,744
Insurance Guarantee Fund	41,529	35,872
Creation of provisions	21,447	33,365
Donations	1,869	31,508 1)
Payment to National Headquarters of the State Fire Service and Volunteer Fire Service Association	31,528	28,869
Rechargeable expenses	12,140	12,313
Other	166,465	170,817
Total other operating expenses	**1,222,276**	**907,740**

1) Including donations to PZU Foundation in the amount of PLN 30,000 thousand.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

23. Income tax

Income tax	1 January - 31 December 2015	1 January - 31 December 2014
Gross profit (consolidated)	2,943,733	3,691,693
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	559,309	701,422
Differences between the income tax calculated above and the income tax recognized in the statement of profit or loss:	42,228	22,644
- tax losses	(681)	1,474
- fines, contractual penalties	707	1,370
- dividends	(2,124)	(3,182)
- valuation of financial assets	7,814	(13,018)
- valuation of investment property	3,554	5,365
- created/reversed impairment losses on receivables not classified as tax deductible expenses	12,407	(3,731)
- other created/reversed provisions and impairment losses on assets, not classified as tax deductible expenses	45,301	18,865
- differences from different tax rates	(3,321)	255
- tax on insurance activities in Ukraine	3,761	4,015
- depreciation	1,701	(524)
- other tax increases, cancellations, exemptions, deductions and reductions	(26,891)	11,755
Income tax recognized in the statement of profit or loss	**601,537**	**724,066**

Total current and deferred tax	1 January - 31 December 2015	1 January - 31 December 2014
1. Recognized in the statement of profit or loss, including:	**601,537**	**724,066**
- current portion	483,101	673,506
- deferred tax	118,436	50,560
2. Recognized in other comprehensive income, including:	**2,472**	**3,383**
- current portion	-	-
- deferred tax	2,472	3,383

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 accordance with paragraph 25 section 1 of the Corporate Income Tax Act dated 15 February 1992 (i.e. Journal of Laws of 2014 (CIT Tax), item 851 as amended), the TCG conducts settlements with the Tax Office on a monthly basis. PZU makes advance payments of corporate income tax to the Tax Office, which are due from all the companies belonging to the TCG and the said companies transfer the CIT advances related to their business activities to PZU.

On 22 December 2015 the Management Board of PZU granted consent for the conclusion of an annex to the TCG agreement effective as of 1 January 2015. It is set forth in the annex signed on 21 January 2016 that should TCG's income be reduced by a tax loss incurred by one or more companies constituting TCG, the amount of the difference between the amount of TCG's tax due determined without taking tax losses into account and the amount of TCG's tax due determined taking into account tax losses borne by the companies shall be transferred by PZU proportionally to each of the companies where the tax losses arose. Settlement is performed within 14 days from the submission of a CIT-8A declaration for the tax year in which the TCG's tax liability was reduced.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

24. Earnings per share

Earnings per share	1 January - 31 December 2015	1 January - 31 December 2014
Net profit from continued operations attributable to holders of the parent entity	2,342,355	2,967,731
Basic and diluted weighted average number of ordinary shares in issue	863,523,000	863,519,490 [1)]
Number of shares issued	863,523,000	863,523,000 [1)]
Number of treasury shares (held by consolidated investment funds)	-	(3,510) [1)]
Basic and diluted profit (loss) per ordinary share (in PLN)	2.71	3.44 [1)]

[1)] Comparatives were restated, taking into consideration the new number of shares after the split described in Note 42.1

No operations were discontinued in both 2015 and 2014.

There were neither transactions, nor events resulting in the dilution of profit per one share in both 2015 and 2014.

25. Income tax presented in other comprehensive income

Income tax relating to components of other comprehensive income	1 January - 31 December 2015	1 January - 31 December 2014
Other comprehensive income before tax	8,238	20,576
Income tax	(2,472)	(3,383)
Measurement of available-for-sale financial instruments	(404)	(1,743)
Provisions for retirement and death benefits	(411)	1,526
Property reclassified from property, plant and equipment to investment property	(1,657)	(3,166)
Other comprehensive income, net	**5,766**	**17,193**

26. Goodwill

Goodwill	31 December 2015	31 December 2014 (restated)
Alior Bank	720,569	-
Lietuvos Draudimas AB	358,766	358,835
Non-life insurance mass-client segment (Link4)	221,377	221,377
Codan branch	112,303	112,319
AAS Balta	38,251	38,258
Health care companies	49,633	29,580
Other	5,546	8,675
Total goodwill	**1,506,445**	**769,044**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in goodwill	1 January - 31 December 2015	1 January - 31 December 2014 (restated)
Gross value of goodwill – opening balance	776,076	20,123
Changes in the period:	735,448	755,953
- acquisition of Alior Bank	720,569 [1)]	-
- acquisition of Lietuvos Draudimas AB	-	358,835 [2)]
- acquisition of Link4 – non-life insurance mass-client segment	-	221,377 [3)]
- acquisition of Codan Branch	-	110,399
- acquisition of AAS Balta	-	37,348
- acquisition of other entities	20,053	29,651
- sale of PZU Lithuania	(3,128)	-
- exchange differences	(2,046)	(1,657)
Gross value of goodwill – closing balance	1,511,524	776,076
Impairment losses – opening balance	(7,032)	(11,604)
Changes in impairment losses due to exchange differences	1,953	4,572
Impairment losses – closing balance	(5,079)	(7,032)
Net value of goodwill – closing balance	**1,506,445**	**769,044**

1) Information on the acquisition of Alior Bank is presented in Note 2.4.6.1.
2) Change in goodwill results from the final settlement of acquisition of the Lietuvos Draudimas AB shares, specified in Note 2.4.6.3.
3) Change in goodwill results from the final settlement of acquisition of the Link4 shares, specified in Note 2.4.6.2.

Impairment test

Impairment test is the comparison of carrying amounts (including goodwill) and recoverable amounts of CGUs. For all the foreign entities and Polish non-insurance entities CGUs are particular companies or their foreign branches which are subject to separate internal monitoring. At the moment of final settlement of the acquisition price, the goodwill resulting from the acquisition of Link4 was fully allocated to the mass-client segment, 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 the goodwill can be assigned. Impairment test regarding goodwill was prepared as at 31 December 2015.

For the purposes of the test, the carrying amount of the mass-client 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 solvency capital 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 2014: 5.5–6.0%). In the case of insurance companies and Alior Bank, the projected cash flows include the need to maintain an adequate level of own funds (for branches that do not manage investments, assets under management at the level of the parent company were allocated pro forma). 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 2015			31 December 2014		
	Discount rate	Growth rate after the forecast period	Financial projections horizon	Discount rate	Growth rate after the forecast period	Financial projections horizon
Lietuvos Draudimas AB	5.6%	3.7%	4 years	6.6%	3.7%	5 years
AAS Balta	5.8%	3.8%	4 years	6.3%	3.8%	5 years
Codan branch	5.8%	3.5%	4 years	5.5%	3.5%	5 years
Mass-client insurance segment [1]	7.5%	2.5%	5 years	7.8% [2]	2.5%	5 years [2]
Alior Bank	8.9%	3.0%	5 years	n/a	n/a	n/a
Health care companies	6.6-9.1%	2.0-3.0%	4-5 years	7.2%	3.0%	4-5 years

[1] Including goodwill resulting from the acquisition of Link4.
[2] As at 31 December 2014, during the measurement period, impairment test was carried out at the level of Link 4 and the assumptions to the test have been presented in the columns marked 31 December 2014.

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 2015			31 December 2014		
	Surplus (PLN thousand)	Terminal discount rate	Terminal growth rate after the forecast period	Surplus (PLN thousand)	Terminal discount rate	Terminal growth rate after the forecast period
Lietuvos Draudimas AB	693,103	7.5%	0.6%	676,160	8.9%	0.9%
AAS Balta	728,326	14.4%	(23.4%)	602,798	13.7%	(7.7%)
Codan branch	109,091	8.3%	(13.9%)	442,738	12.9%	(7.2%)
Mass-client insurance segment	6,264,698 [1]	28.2%	n/a. [2]	220,411[3]	9.7%[3]	(0.7%)[3]
Alior Bank	1,383,491 [4]	10.4%	1.5%	n/a	n/a	n/a
Health care companies	52,773	8.2-13.9%	(5.6)-2.3%	18,555	9.2% - 9.3%	0.1% - 0.5%

[1] Surplus of recoverable amount of mass-client segment over its carrying amount along with goodwill resulting from the acquisition of Link4.
[2] The value of discounted cash flows in the forecast period exceeds the carrying amount assigned to the mass segment, hence the value of the terminal growth rate after the forecast period was not presented.
[3] As at 31 December 2014, during the measurement period, impairment test was carried out at the level of Link 4 and the results and sensitivity analysis of the test have been presented in the columns marked 31 December 2014.
[4] Surplus of the CGU's recoverable amount over the carrying amount (100% of Alior Bank's consolidated net assets) along with the allocated goodwill.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

27. Intangible assets

Changes in intangible assets (by group) in the year ended 31 December 2015

	Costs of completed development works	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	51,233	942,948	817,592	187,851	547,722	1,729,754
Increases (due to):	3,362	371,930	367,165	252,721	310,484	938,497
purchased and manufactured by use of own means	1,842	6,701	6,391	191,065	291	199,899
- change in group composition	260	220,403	220,403	58,893	302,750	582,306
- reclassification from tangible assets under construction	1,260	144,357	140,363	-	-	145,617
- other	-	469	8	2,763	7,443	10,675
Decreases (due to):	(6,938)	(44,856)	(3,947)	(265,655)	(3,752)	(321,201)
- sale and liquidation	(6,938)	(44,656)	(3,747)	(116,589)	(3,398)	(171,581)
- reclassification from tangible assets under construction	-	-	-	(145,617)	-	(145,617)
- other	-	(200)	(200)	(3,449)	(354)	(4,003)
Exchange differences	(81)	(620)	(584)	-	(202)	(903)
Gross value of tangible assets – closing balance	**47,576**	**1,269,402**	**1,180,226**	**174,917**	**854,252**	**2,346,147**
Accumulated depreciation – opening balance	(30,731)	(576,441)	(492,418)	(81)	(92,620)	(699,873)
Changes (due to):	(1,936)	(79,916)	(81,653)	-	(160,607)	(242,459)
- depreciation for the period	(6,595)	(89,390)	(84,856)	-	(161,619)	(257,604)
- sale and liquidation	4,683	9,587	2,847	-	2,804	17,074
- exchange differences	(24)	241	257	-	(2,146)	(1,929)
- other	-	(354)	99	-	354	-
Accumulated depreciation – closing balance	**(32,667)**	**(656,357)**	**(574,071)**	**(81)**	**(253,227)**	**(942,332)**
Impairment losses – opening balance	-	(42,267)	(8,102)	(118,922)	-	(161,189)
Changes in other operating expenses	-	-	-	(37)	-	(37)
Other changes	-	34,165[2)]	-	116,414[2)]	-	150,579
Impairment losses – closing balance	**-**	**(8,102)**	**(8,102)**	**(2,545)**	**-**	**(10,647)**
Net value of intangible assets – closing balance	**14,909**	**604,943**	**598,053**	**172,291**	**601,025**	**1,393,168**

[1)] Including assets acquired in company takeover transactions (trademark, CDI) amounting to PLN 300,000 thousand.

[2)] The Item indicates, among others, derecognition of total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand and charged to impairment losses reported in the preceding periods.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in intangible assets (by group) in the year ended 31 December 2014

	Costs of completed development works	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of tangible assets – opening balance	-	764,179	649,709	185,704	1,961	951,844
Increases (due to):	50,355	201,713	187,219	132,885	539,393	924,346
purchased and manufactured by use of own means	469	9,682	8,409	129,640	128	139,919
- change in group composition	49,798	76,031	67,273	2,072	539,265[1)]	667,166
- reclassification from tangible assets under construction	88	115,898	111,435	-	-	115,986
- other	-	102	102	1,173	-	1,275
Decreases (due to):	-	(22,601)	(18,911)	(130,753)	(585)	(153,939)
- sale and liquidation	-	(7,739)	(4,049)	(13,301)	-	(21,040)
- transfer to a category of assets designated for sale in accordance with IFRS 5 [2)]	-	(14,853)	(14,853)	(70)	(485)	(15,408)
- reclassification from tangible assets under construction	-	-	-	(115,986)	-	(115,986)
- other	-	(9)	(9)	(1,396)	(100)	(1,505)
Exchange differences	878	(343)	(425)	15	6,953	7,503
Gross value of tangible assets – closing balance	**51,233**	**942,948**	**817,592**	**187,851**	**547,722**	**1,729,754**
Accumulated depreciation – opening balance	-	(476,148)	(398,033)	-	(836)	(476,984)
Changes (due to):	(30,731)	(100,293)	(94,385)	(81)	(91,784)	(222,889)
- depreciation for the period	(1,136)	(76,049)	(73,162)	-	(87,853)	(165,038)
- sale and liquidation	-	7,283	3,590	-	-	7,283
- change in group composition	(29,068)	(42,412)	(35,789)	(80)	(2,877)	(74,437)
- transfer to a category of assets designated for sale in accordance with IFRS 5 [2)]	-	10,745	10,745	-	-	10,745
- exchange differences	(527)	249	360	(1)	(1,154)	(1,433)
- other	-	(109)	(129)	-	100	(9)
Accumulated depreciation – closing balance	**(30,731)**	**(576,441)**	**(492,418)**	**(81)**	**(92,620)**	**(699,873)**
Impairment losses – opening balance	-	(34,165)[3)]	-	(131,969)[3)]	-	(166,134)
Changes in other operating expenses	-	(301)	(301)	(121)	-	(422)
Other changes:	-	(7,801)	(7,801)	13,168	-	5,367
- change in group composition	-	(8,075)	(8,075)	-	-	(8,075)
- other	-	274	274	13,168	-	13,442
Impairment losses – closing balance	**-**	**(42,267)[3)]**	**(8,102)**	**(118,922)[3)]**	**-**	**(161,189)**
Net value of intangible assets – closing balance	**20,502**	**324,240**	**317,072**	**68,848**	**455,102**	**868,692**

[1)]Including assets acquired in company takeover transactions (customer relations, relations with brokers, future profits from concluded insurance contracts) amounting to PLN 536,387 thousand.

[1)]The item presents transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

[3)] The item "Impairment losses" indicates losses for total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand.

Intangible assets with indefinite period of use (trademarks with a total value of PLN 269,322 thousand as at 31 December 2014: PLN 169,344) were tested for impairment; as a result of the test, there was no reason found for impairment losses recognition.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Amortization of intangible assets by position in the consolidated statement of profit or loss	1 January - 31 December 2015	1 January - 31 December 2014
Insurance claims and change in technical provisions	18,527	18,650
Acquisition costs	29,691	19,111
Administrative expenses	46,273	38,365
Other operating expenses [1)]	163,064	88,830
Costs of investment activities	45	81
Other	4	1
Total depreciation	**257,604**	**165,038**

28. Other assets

Other assets	31 December 2015	31 December 2014
Reinsurance settlements	339,463	79,010
IT expenses	31,581	25,963
Accrued receivables from direct claims handling	41,582	-
Inventories:	125,260	84,762
- materials	53,201	28,528
- products and goods	71,794	55,720
- claim salvages	265	514
Other assets	161,078	45,515
Total other assets	**698,964**	**235,250**

Other assets	31 December 2015	31 December 2014
Short-term	683,058	229,056
Long-term	15,906	6,194
Total other assets	**698,964**	**235,250**

29. Deferred acquisition costs

Deferred acquisition costs	31 December 2015	31 December 2014
Short-term	1,065,459	644,088
Long-term	89,283	67,978
Total deferred acquisition costs	**1,154,742**	**712,066**

29.1 Deferred acquisition costs – non-life insurance

Change in deferred acquisition costs in non-life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Carrying amount – opening balance	644,451	546,476
Deferred acquisition costs	1,149,975 [1)]	689,604
Depreciation for the period recognized in the statement of profit or loss	(714,632)	(572,310)
Transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1 [2)]	-	(15,136)
Exchange differences	(1,487)	(4,183)
Carrying amount – closing balance	**1,078,307**	**644,451**

[1)] The increase of deferred acquisition expenses results mainly from deferring a part of indirect acquisition costs (see Note 6.2.5 for additional information) and the consolidation of AAS Balta, Lietuvos Draudimas AB, and Link4 for the full financial year.

[2)] The decrease of deferred acquisition expenses was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

29.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2015	1 January – 31 December 2014
Carrying amount – opening balance	67,615	63,343
Deferred acquisition costs	19,873	5,578
Depreciation for the period recognized in the statement of profit or loss	(11,078)	(1,432)
Exchange differences	25	126
Carrying amount – closing balance	**76,435**	**67,615**

30. Estimated subrogations and salvages

Estimated subrogations, salvages and subsidies	31 December 2015	31 December 2014
Estimated subrogations	110,340	123,617
Estimated salvages	3,889	3,645
Total	**114,229**	**127,262**

Estimated subrogations, salvages and subsidies	31 December 2015	31 December 2014
Short-term	48,983	57,162
Long-term	65,246	70,100
Total	**114,229**	**127,262**

Estimated subrogations and salvages are classified as long-term if the related cash flows are expected to occur after more than 12 months from the end of the reporting period.

31. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	31 December 2015	31 December 2014
Unearned premiums reserve	339,255	302,173
Provisions for claims outstanding, including:	579,173	296,900
- for claims reported	527,773	228,795
- for claims incurred but not reported (IBNR)	28,973	46,259
- for claims handling expenses	22,427	21,846
Provisions for the capitalized value of annuities	178,424	154,042
Total reinsurers' share in technical provisions	**1,096,852**	**753,115**

Reinsurers' share in technical provisions by currency	31 December 2015	31 December 2014
PLN	733,580	690,347
USD	301,332 [1)]	20
EUR	39,030	35,319
UAH	18,872	27,205
Other	4,038	244
Total reinsurers' share in technical provisions by currency	**1,096,852**	**753,115**

[1)] Increase in reinsurer's share concerns mainly the recognizing reinsurer's share (at the amount of PLN 299,626 thousand) in provision for claims resulting from fire in a Czech company Unipetrol which took place in August 2015.

Reinsurers' share in technical provisions	31 December 2015	31 December 2014
Short-term	307,016	199,156
Long-term	789,836	553,959
Total reinsurers' share in technical provisions	**1,096,852**	**753,115**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

32. Tangible assets

Changes in tangible assets (by group) in the year ended 31 December 2015

	Technical equipment and machines	Vehicles	Tangible assets under construction	Property [1)]	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	536,650	143,661	42,915	1,130,382	175,003	2,028,611
Increases (due to):	142,095	37,136	107,030	111,110	148,845	546,216
- purchase and own production	27,742	4,906	93,918	1,568	14,072	142,206
- change in group composition	81,468	755	13,112	22,315	122,916	240,566
- reclassification from investment property	-	-	-	74,662	-	74,662
- reclassification from tangible assets under construction	25,477	31,055	-	12,148	9,385	78,065
- other	7,408	420	-	417	2,472	10,717
Decreases (due to):	(94,730)	(23,822)	(89,202)	(74,486)	(12,283)	(294,523)
- sale and liquidation	(92,985)	(23,822)	(48)	(977)	(11,392)	(129,224)
- reclassification to assets held for sale according to IFRS 5	-	-	-	(7,958)	-	(7,958)
- reclassification to investment property	-	-	(2,701)	(63,542)	-	(66,243)
- reclassification from tangible assets under construction	-	-	(78,065)	-	-	(78,065)
- other	(1,745)	-	(8,388)	(2,009)	(891)	(13,033)
Exchange differences	(977)	(474)	(6)	(268)	(435)	(2,160)
Gross value of tangible assets – closing balance	**583,038**	**156,501**	**60,737**	**1,166,738**	**311,130**	**2,278,144**
Accumulated depreciation – opening balance	(438,374)	(55,322)	(422)	(367,636)	(107,359)	(969,113)
Changes (due to):	53,369	(670)	-	(1,424)	(9,361)	41,914
- depreciation for the period	(34,170)	(19,791)	-	(28,384)	(19,388)	(101,733)
- sale and liquidation	92,543	19,180	-	249	11,022	122,994
- reclassification to assets held for sale according to IFRS 5	-	-	-	1,220	-	1,220
- reclassification to investment property	-	-	-	23,867	-	23,867
- exchange differences	727	236	-	114	407	1,484
- other	(5,731)	(295)	-	1,510	(1,402)	(5,918)
Accumulated depreciation – closing balance	**(385,005)**	**(55,992)**	**(422)**	**(369,060)**	**(116,720)**	**(927,199)**
Impairment losses – opening balance	(3,413)	(17)	(15)	(50,203)	(4,241)	(57,889)
Changes recognized in the financial profit/loss, including:	571	(319)	(386)	16	496	378
- other operating expenses	-	(319)	(386)	-	-	(705)
- other operating income	571	-	-	16	496	1,083
Other changes:	-	-	-	6,354	-	6,354
- reclassification to investment property	-	-	-	6,237	-	6,237
- other	-	-	-	117	-	117
Impairment losses – closing balance	**(2,842)**	**(336)**	**(401)**	**(43,833)**	**(3,745)**	**(51,157)**
Net value of tangible assets – closing balance	**195,191**	**100,173**	**59,914**	**753,845**	**190,665**	**1,299,788**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in tangible assets (by group) in the year ended 31 December 2014

	Technical equipment and machines	Vehicles	Tangible assets under construction	Property [1]	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	582,604	116,418	22,954	1,081,035	139,549	1,942,560
Increases (due to):	64,174	53,269	66,747	132,354	54,759	371,303
- purchase and own production	26,217	12,920	54,498	8,162	9,018	110,815
- change in group composition	27,563	15,782	730	105,199	39,899	189,173
- reclassification to investment property	-	-	-	15,419	-	15,419
- reclassification from tangible assets under construction	9,875	21,827	-	3,574	5,693	40,969
- other	519	2,740	11,519	-	149	14,927
Decreases (due to):	(108,241)	(25,255)	(46,798)	(83,617)	(18,344)	(282,255)
- sale and liquidation	(100,439)	(25,255)	-	(841)	(16,104)	(142,639)
- reclassification to assets held for sale according to IFRS 5 [2]	(4,879)	-	-	(20,691)	(1,810)	(27,380)
- reclassification to investment property	(1,893)	-	(124)	(61,714)	(62)	(63,793)
- reclassification from tangible assets under construction	-	-	(40,969)	-	-	(40,969)
- other	(1,030)	-	(5,705)	(371)	(368)	(7,474)
Exchange differences	(1,887)	(771)	12	610	(961)	(2,997)
Gross value of tangible assets – closing balance	**536,650**	**143,661**	**42,915**	**1,130,382**	**175,003**	**2,028,611**
Accumulated depreciation – opening balance	(494,299)	(52,976)	-	(322,530)	(86,050)	(955,855)
Changes (due to):	55,925	(2,346)	(422)	(45,106)	(21,309)	(13,258)
- depreciation for the period	(29,785)	(14,318)	-	(29,960)	(15,372)	(89,435)
- sale and liquidation	99,779	20,676	-	708	15,703	136,866
- change in group composition	(20,411)	(7,074)	(415)	(28,933)	(24,166)	(80,999)
- reclassification to assets held for sale according to IFRS 5 [2]	3,310	-	-	3,063	1,422	7,795
- reclassification to investment property	1,265	-	-	10,157	36	11,458
- exchange differences	1,412	462	(7)	22	898	2,787
- other	355	(2,092)	-	(163)	170	(1,730)
Accumulated depreciation – closing balance	**(438,374)**	**(55,322)**	**(422)**	**(367,636)**	**(107,359)**	**(969,113)**
Impairment losses – opening balance	-	-	-	(59,424)	-	(59,424)
Changes recognized in the financial profit/loss, including:	(2,452)	(20)	(15)	5,921	-	3,434
- other operating expenses	(2,490)	(20)	(15)	(2,139)	-	(4,664)
- other operating income	38	-	-	8,060	-	8,098
Other changes:	(961)	3	-	3,300	(4,241)	(1,899)
- change in group composition	(1,301)	-	-	-	(4,241)	(5,542)
- reclassification to assets held for sale according to IFRS 5 [2]	-	-	-	1,446	-	1,446
- reclassification to investment property	-	-	-	1,863	-	1,863
- other	340	3	-	(9)	-	334
Impairment losses – closing balance	**(3,413)**	**(17)**	**(15)**	**(50,203)**	**(4,241)**	**(57,889)**
Net value of tangible assets – closing balance	**94,863**	**88,322**	**42,478**	**712,543**	**63,403**	**1,001,609**

[1] Including land perpetual usufruct.

[2] Positions "Transfers to assets held for sale in accordance with IFRS 5" present the transfer of assets of PZU Lithuania to assets available for sale in relation to transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

"Reclassifications to investment property" include the same values, as explained in Note 36.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

33. Investment property

Investment property	31 December 2015	31 December 2014
Own land	116,710	177,791
Land perpetual usufruct right	24,197	39,557
Buildings and structures	1,029,798	2,017,141
Cooperative ownership of premises	1,016	1,573
Total investment property	**1,171,721**	**2,236,062**

Change in investment property	1 January - 31 December 2015	1 January - 31 December 2014
Carrying amount – opening balance	2,236,062	1,474,770
Increases (due to):	308,167	722,477
- purchase	270,273	668,524
- change in group composition	-	3,481
- reclassifications to real property used for internal purposes	36,139	50,472
- reclassification from assets held for sale according to IFRS 5	1,755	-
Decreases (due to):	(1,460,445)	(53,192)
- sale and liquidation	(3,506)	(16,000)
- reclassifications to real property used for internal purposes	(74,662)	(15,419)
- reclassification to held for sale according to IFRS 5	(1,382,277)	(21,773)
Profit (loss) on fair value remeasurements	88,627	92,889
- recognized in profit or loss	79,907	76,215
- recognized in other comprehensive income	8,720	16,674
Exchange differences	(690)	(882)
Net book value – closing balance	**1,171,721**	**2,236,062**

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 2015.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

34. Entities measured using the equity method

Associates and joint ventures	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA		Armatura Tower Sp. z o.o.	
Nature of the relationship between PZU and the entity	Associate – non-strategic		Associate – non-strategic		Joint venture – non-strategic	
Seat of the entity	Wrocław	Wrocław	Tychy	Tychy	Cracow	Cracow
Share in the entity's capital	28.31%	28.58%	30.00%	30.00%	50.00%	50.00%
Share in the entity's votes	25.44%	25.41%	30.00%	30.00%	50.00%	50.00%
Valuation method in consolidated financial statements	Equity method		Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS		IFRS	
Carrying amount of the involvement in the entity	53,479	65,707	575	586	11	18
Fair value of the interest in the entity	55,283	52,737	None – unlisted entity	None – unlisted entity	None – unlisted entity	None – unlisted entity
Dividends received from the entity	-	-	8	36	-	-
Basic financial information						
Assets, including:	252,378	241,290	2,882	2,509	22	35
Short-term assets, including:	54,529	49,796	2,424	2,002	22	35
Cash and cash equivalents	16,350	16,931	2,397	1,752	16	32
Long-term assets	197,849	191,494	458	507	-	-

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Equity	152,873	136,475	1,915	1,953	22	35
Liabilities, including:	99,505	104,815	967	556	-	-
Short-term liabilities, including:	56,497	60,162	967	556	-	-
Short-term financial liabilities	21,934	23,930	-	-	-	-
Long-term liabilities, including:	43,008	44,653	-	-	-	-
Long-term financial liabilities	19,760	24,286	-	-	-	-
					-	
Revenue from core operations	258,070	243,262	2,056	1,093	-	-
Depreciation and amortization	13,141	12,607	154	49	-	-
Interest income	280	1,130	76	133	-	-
Interest expense	1,969	2,419	-	-	-	-
Income tax	551	(211)	21	33	-	-
Total net comprehensive income, including:	(4,337)	(7,233)	(18)	21	(13)	(15)
Profit/loss, including:	(4,498)	(6,605)	(18)	21	(13)	(15)
Profit (loss) from continued operations	(4,498)	(6,605)	(18)	21	(13)	(15)
Profit (loss) from discontinued operations	-	-	-	-	-	-
Other comprehensive income	161	(628)	-	-	-	-

There are no restrictions (e.g. due to lending arrangements, regulatory requirements or contracts) concerning the possibility of transfer of funds by associates and joint ventures in the form of cash dividends.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in the share in the net assets of associates	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	37,050	19,334
Purchase of EMC shares	5,137	19,459
Share in net profit/(loss)	(936)	(1,525)
Dividends [1]	(8)	(36)
Share in other comprehensive income	46	(182)
Closing balance	**41,289**	**37,050**

[1] Dividends paid by GSU Pomoc Górniczy Klub Ubezpieczonych SA

Change in goodwill related to associates	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	29,261	29,261
Impairment losses	(16,486)	-
Closing balance	**12,775**	**29,261**

Reconciliation of the EMC measurement	1 January - 31 December 2015	1 January - 31 December 2014
Net assets of EMC	152,873	136,475
Non-controlling interest in EMC financial statements	(7,902)	(7,825)
Goodwill in financial statements of EMC as at the moment of achieving a considerable inflow	(1,151)	(1,151)
Net assets of EMC measured using equity method valuation	143,820	127,499
PZU Group's share in EMC capitals	40,704	36,446
Goodwill in financial statements of PZU Group	12,775	29,261
Carrying amount	**53,479**	**65,707**

Impairment test

Impairment test was conducted as at 31 December 2015 and showed the necessity to recognize impairment loss on the value of EMC shares amounting to PLN 16,486 thousand.

The recoverable amount was determined based on entities' value in use, using the discounted cash flow method with respect to the principles described in Note 26. Discount rate was determined based on weighted average cost of capital. The remaining assumptions taken when conducting the test included:

Entity generating cash flows	31 December 2015		31 December 2014	
	Discount rate	Growth rate after the forecast period	Discount rate	Growth rate after the forecast period
EMC	6.2%	3.0%	6.9%	3.5%

35. Financial assets

Due to a change in the purpose of use of the assets, on 1 January 2015, certain assets that up until now were 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 83,620 thousand. Carrying amount as at 31 December 2015 amounted to PLN 81,767.

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 2015. No reclassification of this kind were carried out in 2014.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.1 Financial assets held to maturity

Financial assets held to maturity	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets for which fair value may be determined	**17,370,126**	**19,820,330**	**19,983,689**	**23,524,392**
Debt instruments	17,370,126	19,820,330	19,983,689	23,524,392
Government securities	17,150,858	19,591,349	19,796,986	23,320,298
Fixed rate	15,919,711	18,337,510	18,555,389	22,082,026
Floating rate	1,231,147	1,253,839	1,241,597	1,238,272
Other	219,268	228,981	186,703	204,094
Listed on a regulated market	96,481	103,505	63,909	72,889
Fixed rate	96,481	103,505	63,909	72,889
Not listed on the regulated market	122,787	125,476	122,794	131,205
Floating rate	122,787	125,476	122,794	131,205
Total financial assets held to maturity	**17,370,126**	**19,820,330**	**19,983,689**	**23,524,392**

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2015	up to 1 year	Over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 year and up to 4 years	over 4 years and up to 5 years	Over 5 years	Total
Government securities	864,390	2,756,096	65,918	1,051,738	388,242	12,024,474	17,150,858
Fixed rate	580,705	2,489,188	40,804	1,031,699	388,242	11,389,073	15,919,711
Floating rate	283,685	266,908	25,114	20,039	-	635,401	1,231,147
Other	3,784	24,122	58,307	80,178	6,273	46,604	219,268
Listed on a regulated market	3,784	-	34,190	5,630	6,273	46,604	96,481
Fixed rate	3,784	-	34,190	5,630	6,273	46,604	96,481
Not listed on the regulated market	-	24,122	24,117	74,548	-	-	122,787
Floating rate	-	24,122	24,117	74,548	-	-	122,787
Total	**868,174**	**2,780,218**	**124,225**	**1,131,916**	**394,515**	**12,071,078**	**17,370,126**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2014	up to 1 year	Over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 year and up to 4 years	over 4 years and up to 5 years	Over 5 years	Total
Government securities	3,138,479	853,876	2,596,305	57,058	1,025,378	12,125,890	19,796,986
Fixed rate	3,138,479	563,973	2,328,480	31,883	1,005,296	11,487,278	18,555,389
Floating rate	-	289,903	267,825	25,175	20,082	638,612	1,241,597
Other	4,540	3,738	24,120	56,174	75,163	22,968	186,703
Listed on a regulated market	4,540	3,738	-	32,059	604	22,968	63,909
Fixed rate	4,540	3,738	-	32,059	604	22,968	63,909
Not listed on the regulated market	-	-	24,120	24,115	74,559	-	122,794
Floating rate	-	-	24,120	24,115	74,559	-	122,794
Total	**3,143,019**	**857,614**	**2,620,425**	**113,232**	**1,100,541**	**12,148,858**	**19,983,689**

Short-term assets are assets with maturity up to 1 year.

Carrying amount of debt instruments held to maturity	31 December 2015				31 December 2014			
	PLN	EUR	UAH	Total	PLN	EUR	LTL	Total
Government securities	**16,862,518**	**281,920**	**6,420**	**17,150,858**	19,762,959	18,830	15,197	19,796,986
Fixed rate	15,631,371	281,920	6,420	15,919,711	18,521,362	18,830	15,197	18,555,389
Floating rate	1,231,147	-	-	1,231,147	1,241,597	-	-	1,241,597
Other	102,863	116,405	-	219,268	102,876	83,827	-	186,703
Listed on a regulated market	52,502	43,979	-	96,481	52,504	11,405	-	63,909
Fixed rate	52,502	43,979	-	96,481	52,504	11,405	-	63,909
Not listed on the regulated market	50,361	72,426	-	122,787	50,372	72,422	-	122,794
Floating rate	50,361	72,426	-	122,787	50,372	72,422	-	122,794
Total	**16,965,381**	**398,325**	**6,420**	**17,370,126**	**19,865,835**	**102,657**	**15,197**	**19,983,689**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2015		31 December 2014	
	Carrying amount	Amortized cost	Carrying amount	Amortized cost
Instruments for which fair value may be determined	**7,727,973**	**n/a**	**2,982,164**	**n/a**
Equity instruments	582,223	n/a	547,299	n/a
Listed on a regulated market	195,689	n/a	357,732	n/a
Not listed on the regulated market	386,534	n/a	189,567	n/a
Debt instruments	7,145,750	7,145,084	2,434,865	2,324,810
Government securities	6,317,916	6,236,056	1,922,939	1,828,110
Fixed rate	4,659,631	4,583,137	1,868,605	1,773,860
Floating rate	1,658,285	1,652,919	54,334	54,250
Other	827,834	909,028	511,926	496,700
Listed on a regulated market	245,863	319,280	272,564	263,117
Fixed rate	202,684	276,101	221,413	211,968
Floating rate	43,179	43,179	51,151	51,149
Not listed on the regulated market	581,971	589,748	239,362	233,583
Floating rate	581,971	589,748	239,362	233,583
Instruments for which fair value may not be determined	**16,716**	**n/a**	**3,158**	**n/a**
Equity instruments	16,716	n/a	3,158	n/a
Not listed on the regulated market	16,716	n/a	3,158	n/a
Total financial instruments available for sale	**7,744,689**	**n/a**	**2,985,322**	**n/a**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Available-for-sale financial instruments	31 December 2015	31 December 2014
Short-term	1,116,236	612,755
Long-term	6,628,453	2,372,567
Total financial assets available for sale	**7,744,689**	**2,985,322**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the financial year.

Carrying amount of debt financial instruments available for sale as at 31 December 2015	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Government securities	972,297	1,438,777	1,396,225	346,297	692,472	1,471,848	6,317,916
Fixed rate	970,307	931,620	829,798	346,297	622,281	959,328	4,659,631
Floating rate	1,990	507,157	566,427	-	70,191	512,520	1,658,285
Other	50,647	34,455	78,197	420,932	171,427	72,176	827,834
Listed on a regulated market	33,559	13,673	-	106,078	20,377	72,176	245,863
Fixed rate	33,559	13,673	-	62,899	20,377	72,176	202,684
Floating rate	-	-	-	43,179	-	-	43,179
Not listed on the regulated market	17,088	20,782	78,197	314,854	151,050	-	581,971
Floating rate	17,088	20,782	78,197	314,854	151,050	-	581,971
Total	**1,022,944**	**1,473,232**	**1,474,422**	**767,229**	**863,899**	**1,544,024**	**7,145,750**

Carrying amount of debt financial instruments available for sale as at 31 December 2014	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Government securities	394,140	454,558	260,878	178,103	180,462	454,798	1,922,939
Fixed rate	392,605	454,501	208,136	178,103	180,462	454,798	1,868,605
Floating rate	1,535	57	52,742	-	-	-	54,334
Other	145,718	9,379	13,965	-	309,255	33,609	511,926
Listed on a regulated market	145,718	9,379	13,965	-	69,893	33,609	272,564
Fixed rate	137,190	9,379	13,965	-	27,270	33,609	221,413
Floating rate	8,528	-	-	-	42,623	-	51,151
Not listed on the regulated market	-	-	-	-	239,362	-	239,362
Floating rate	-	-	-	-	239,362	-	239,362
Total	**539,858**	**463,937**	**274,843**	**178,103**	**489,717**	**488,407**	**2,434,865**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Available-for-sale financial instruments	31 December 2015				31 December 2014				
	PLN	EUR	Other	Total	PLN	EUR	LTL	Other	Total
- equity instruments	**493,343**	**105,508**	**88**	**598,939**	**539,734**	**10,601**	**30**	**92**	**550,457**
Listed on a regulated market	171,692	23,997	-	195,689	347,247	10,485	-	-	357,732
Not listed on the regulated market	321,651	81,511	88	403,250	192,487	116	30	92	192,725
Debt instruments	**5,700,875**	**1,389,976**	**54,899**	**7,145,750**	**1,625,802**	**346,424**	**453,828**	**8,811**	**2,434,865**
Government securities	5,090,608	1,172,409	54,899	6,317,916	1,357,136	103,164	453,828	8,811	1,922,939
Fixed rate	3,432,323	1,172,409	54,899	4,659,631	1,302,802	103,164	453,828	8,811	1,868,605
Floating rate	1,658,285	-	-	1,658,285	54,334	-	-	-	54,334
Other	610,267	217,567	-	827,834	268,666	243,260	-	-	511,926
Listed on a regulated market	28,296	217,567	-	245,863	29,304	243,260	-	-	272,564
Fixed rate	28,296	174,388	-	202,684	29,304	192,109	-	-	221,413
Floating rate	-	43,179	-	43,179	-	51,151	-	-	51,151
Not listed on the regulated market	581,971	-	-	581,971	239,362	-	-	-	239,362
Floating rate	581,971	-	-	581,971	239,362	-	-	-	239,362
Total	**6,194,218**	**1,495,484**	**54,987**	**7,744,689**	**2,165,536**	**357,025**	**453,858**	**8,903**	**2,985,322**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.3 Financial assets measured at fair value through profit or loss

As at 31 December 2015 and 31 December 2014, 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 2015	31 December 2014
Assets classified as such upon initial recognition	**13,245,460**	**12,571,137**
Equity instruments	2,384,554	1,482,597
Listed on a regulated market	2,274,062	1,443,739
Not listed on the regulated market	110,492	38,858
Debt instruments	10,860,906	11,088,540
Government securities	10,630,780	11,005,221
Fixed rate	9,047,572	9,814,334
Floating rate	1,583,208	1,190,887
Other	230,126	83,319
Listed on a regulated market	230,126	83,319
Fixed rate	230,126	83,319
Assets held for trading	**7,402,943**	**6,525,347**
Equity instruments	4,077,204	4,463,405
Listed on a regulated market	1,052,849	1,572,464
Not listed on the regulated market	3,024,355	2,890,941
Debt instruments	2,352,363	1,515,539
Government securities	2,278,369	1,441,296
Fixed rate	2,228,895	1,409,570
Floating rate	49,474	31,726
Other	73,994	74,243
Listed on a regulated market	311	-
Floating rate	311	-
Not listed on the regulated market	73,683	74,243
Floating rate	73,683	74,243
Derivative instruments	973,376	546,403
Total financial assets measured at fair value through profit or loss	**20,648,403**	**19,096,484**

Additional information on involvement in derivatives and related risks are presented in Note 8.5.2

Financial assets measured at fair value through profit or loss	31 December 2015	31 December 2014
Short-term	12,527,527	10,858,702
Long-term	8,120,876	8,237,782
Total financial assets measured at fair value through profit or loss	**20,648,403**	**19,096,484**

Equity instruments are classified as long-term unless they are planned to be sold within 12 months from the end of the financial year or they are a part of the financial assets held for trading portfolio.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2015	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**2,002,624**	**1,166,790**	**1,033,082**	**1,769,097**	**1,329,794**	**3,559,519**	**10,860,906**
Government securities	1,883,747	1,163,974	1,014,508	1,763,377	1,312,032	3,493,142	10,630,780
Fixed rate	1,850,833	1,071,379	1,009,658	1,623,190	1,194,758	2,297,754	9,047,572
Floating rate	32,914	92,595	4,850	140,187	117,274	1,195,388	1,583,208
Other	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Listed on a regulated market	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Fixed rate	118,877	2,816	18,574	5,720	17,762	66,377	230,126
Instruments held for trading	**23,682**	**405,335**	**429,829**	**444,114**	**336,548**	**712,855**	**2,352,363**
Government securities	23,371	354,747	406,734	444,114	336,548	712,855	2,278,369
Fixed rate	4,170	344,654	386,554	444,114	336,548	712,855	2,228,895
Floating rate	19,201	10,093	20,180	-	-	-	49,474
Other	311	50,588	23,095	-	-	-	73,994
Listed on a regulated market	311	-	-	-	-	-	311
Floating rate	311	-	-	-	-	-	311
Not listed on the regulated market	-	50,588	23,095	-	-	-	73,683
Floating rate	-	50,588	23,095	-	-	-	73,683
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**2,026,306**	**1,572,125**	**1,462,911**	**2,213,211**	**1,666,342**	**4,272,374**	**13,213,269**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2014	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	**564,379**	**2,537,527**	**1,770,867**	**2,132,417**	**1,721,732**	**2,361,618**	**11,088,540**
Government securities	556,856	2,536,934	1,769,524	2,128,868	1,721,479	2,291,560	11,005,221
Fixed rate	556,856	2,536,838	1,542,427	1,944,593	1,277,261	1,956,359	9,814,334
Floating rate	-	96	227,097	184,275	444,218	335,201	1,190,887
Other	7,523	593	1,343	3,549	253	70,058	83,319
Listed on a regulated market	7,523	593	1,343	3,549	253	70,058	83,319
Fixed rate	7,523	593	1,343	3,549	253	70,058	83,319
Instruments held for trading	**27,063**	**458,380**	**350,305**	**352,300**	**325,609**	**1,882**	**1,515,539**
Government securities	27,063	458,380	299,332	329,030	325,609	1,882	1,441,296
Fixed rate	1,720	451,997	299,332	329,030	325,609	1,882	1,409,570
Floating rate	25,343	6,383	-	-	-	-	31,726
Other	-	-	50,973	23,270	-	-	74,243
Not listed on the regulated market	-	-	50,973	23,270	-	-	74,243
Floating rate	-	-	50,973	23,270	-	-	74,243
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	**591,442**	**2,995,907**	**2,121,172**	**2,484,717**	**2,047,341**	**2,363,500**	**12,604,079**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Financial assets measured at fair value through profit or loss by currency	31 December 2015							
	PLN	EUR	USD	HUF	RON	CZK	Other	Total
Assets classified as such upon initial recognition	**12,128,694**	**505,859**	**302,717**	**76,326**	**78,455**	**122,308**	**31,101**	**13,245,460**
- equity instruments	2,190,827	127,187	48,718	1,105	-	16,717	-	2,384,554
Listed on a regulated market	2,190,132	30,341	35,767	1,105	-	16,717	-	2,274,062
Not listed on the regulated market	695	96,846	12,951	-	-		-	110,492
Debt instruments	9,937,867	378,672	253,999	75,221	78,455	105,591	31,101	10,860,906
Government securities	9,909,571	197,939	253,317	75,221	78,455	105,591	10,686	10,630,780
Fixed rate	8,505,742	197,939	253,317	1,433	78,455		10,686	9,047,572
Floating rate	1,403,829	-	-	73,788	-	105,591	-	1,583,208
Other	28,296	180,733	682	-	-	-	20,415	230,126
Listed on a regulated market	28,296	180,733	682	-	-	-	20,415	230,126
Fixed rate	28,296	180,733	682	-	-	-	20,415	230,126
Assets held for trading	**5,805,374**	**812,728**	**346,807**	**161,986**	**15,912**	**47,347**	**212,789**	**7,402,943**
- equity instruments	3,763,404	152,533	117,826	27,803	13,941	1,697	-	4,077,204
Listed on a regulated market	939,885	44,029	25,494	27,803	13,941	1,697	-	1,052,849
Not listed on the regulated market	2,823,519	108,504	92,332	-	-	-	-	3,024,355
Debt instruments	1,537,221	573,992	159,446	81,704	-	-	-	2,352,363
Government securities	1,463,227	573,992	159,446	81,704	-	-	-	2,278,369
Fixed rate	1,413,753	573,992	159,446	81,704	-	-	-	2,228,895
Floating rate	49,474	-	-	-	-	-	-	49,474
Other	73,994	-	-	-	-	-	-	73,994
Listed on a regulated market	311	-	-	-	-	-	-	311
Floating rate	311	-	-	-	-	-	-	311
Not listed on the regulated market	73,683	-	-	-	-	-	-	73,683
Floating rate	73,683	-	-	-	-	-	-	73,683
Derivative instruments	504,749	86,203	69,535	52,479	1,971	45,650	212,789,[1]	973,376
Total financial assets measured at fair value through profit or loss by currency	**17,934,068**	**1,318,587**	**649,524**	**238,312**	**94,367**	**169,655**	**243,890**	**20,648,403**

[1] including PLN 156,058 denominated in BRL

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Financial assets measured at fair value through profit or loss by currency	31 December 2014					
	PLN	EUR	USD	HUF	Other	Total
Assets classified as such upon initial recognition	**11,786,698**	**406,087**	**144,511**	**163,498**	**70,343**	**12,571,137**
- equity instruments	1,392,993	63,973	12,683	-	12,948	1,482,597
Listed on a regulated market	1,392,536	39,291	356	-	11,556	1,443,739
Not listed on the regulated market	457	24,682	12,327	-	1,392	38,858
Debt instruments	10,393,705	342,114	131,828	163,498	57,395	11,088,540
Government securities	10,364,401	288,547	131,380	163,498	57,395	11,005,221
Fixed rate	9,198,609	288,547	131,380	138,403	57,395 [1)]	9,814,334
Floating rate	1,165,792	-	-	25,095	-	1,190,887
Other	29,304	53,567	448	-	-	83,319
Listed on a regulated market	29,304	53,567	448	-	-	83,319
Fixed rate	29,304	53,567	448	-	-	83,319
Assets held for trading	**5,851,418**	**232,091**	**190,206**	**92,574**	**159,058**	**6,525,347**
- equity instruments	4,080,344	170,477	136,881	27,502	48,201	4,463,405
Listed on a regulated market	1,379,609	67,540	49,612	27,502	48,201	1,572,464
Not listed on the regulated market	2,700,735	102,937	87,269	-	-	2,890,941
Debt instruments	1,479,939	24,842	10,758	-	-	1,515,539
Government securities	1,405,696	24,842	10,758	-	-	1,441,296
Fixed rate	1,373,970	24,842	10,758	-	-	1,409,570
Floating rate	31,726	-	-	-	-	31,726
Other	74,243	-	-	-	-	74,243
Not listed on the regulated market	74,243	-	-	-	-	74,243
Floating rate	74,243	-	-	-	-	74,243
Derivative instruments	291,135	36,772	42,567	65,072	110,857	546,403
Total financial assets measured at fair value through profit or loss by currency	**17,638,116**	**638,178**	**334,717**	**256,072**	**229,401**	**19,096,484**

[1)] Including PLN 50,885 in RON.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

35.4 Loans

Loans	31 December 2015	31 December 2014
Short-term	19,823,627	9,286,581
Long-term	23,579,424	5,407,900
Total loans and receivables	**43,403,051**	**14,694,481**

Loans and receivables as at 31 December 2015	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt instruments	**301,587**	**718,266**	**207,531**	**364,908**	**50,264**	**1,088,051**	**2,730,607**
Government securities	4,020	938	-	1,843	-	-	6,801
Fixed rate	4,020	938	-	1,843	-	-	6,801
Other	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Not listed on the regulated market	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Floating rate	297,567	717,328	207,531	363,065	50,264	1,088,051	2,723,806
Other, including:	**19,522,040**	**2,946,278**	**2,239,152**	**2,106,844**	**2,946,241**	**10,911,889**	**40,672,444**
- loan receivables from clients	11,212,509	2,804,953	2,070,426	1,993,826	1,612,087	10,637,814	30,331,615
- buy sell-back transactions	3,132,740	-	-	-	-	-	3,132,740
- term deposits with credit institutions	5,081,175	-	-	21,199	126,080	50,590	5,279,044
- loans	95,616	141,325	168,726	91,819	1,208,074	223,485	1,929,045
Total	**19,823,627**	**3,664,544**	**2,446,683**	**2,471,752**	**2,996,505**	**11,999,940**	**43,403,051**

Loans and receivables as at 31 December 2014	Carrying amount by maturity date						
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt instruments	**31,938**	**704,738**	**722,721**	**214,196**	**61,336**	**1,255,626**	**2,990,555**
Government securities	28,056	2,788	1,246	-	3,056	-	35,146
Fixed rate	28,056	2,788	1,246	-	3,056	-	35,146
Other	3,882	701,950	721,475	214,196	58,280	1,255,626	2,955,409
Listed on a regulated market	3,882	-	-	-	-	-	3,882
Fixed rate	3,882	-	-	-	-	-	3,882
Not listed on the regulated market	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Floating rate	-	701,950	721,475	214,196	58,280	1,255,626	2,951,527
Other, including:	**9,254,643**	**220,963**	**620,571**	**456,343**	**775,407**	**375,999**	**11,703,926**
- buy sell-back transactions	3,250,173	-	-	-	-	-	3,250,173
- term deposits with credit institutions	5,958,563	124,525	-	-	20,433	40,260	6,143,781 [1)]
- loans	45,907	96,438	620,571	456,343	754,974	335,739	2,309,972 [2)]
Total	**9,286,581**	**925,701**	**1,343,292**	**670,539**	**836,743**	**1,631,625**	**14,694,481**

[1)] For more than 89% of term deposits with credit institutions the maturity date fell before the end of March 2015.
[2)] Over 96% 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.

The fair value of buy sell-back transactions and term deposits with credit institutions classified as Level III did not differ significantly from their carrying values due to their short-term nature.

Loan receivables from clients	31 December 2015
Retail segment	**16,996,641**
Operating credits	167,635
Consumer credits	8,538,699

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Consumer Finance credits	755,044
Credits to acquire securities	119,069
Credit card credit	225,308
House purchase credits	6,317,227
Other mortgage loans	845,181
Other receivables	28,478
Business segment	**13,334,974**
Operating credits	7,306,525
Car loans	70,390
Investment credits	5,506,929
Purchased receivables (factoring)	376,403
Other receivables	74,727
Total loan receivables from clients	**30,331,615**

Loans and receivables as at 31 December 2015	PLN	EUR	USD	GBP	Other	Total
Debt instruments	**2,723,806**	**-**	**1,965**	**-**	**4,836**	**2,730,607**
Government securities	-	-	1,965	-	4,836	6,801
Fixed rate	-	-	1,965	-	4,836	6,801
Other	2,723,806	-	-	-	-	2,723,806
Not listed on the regulated market	2,723,806	-	-	-	-	2,723,806
Floating rate	2,723,806	-	-	-	-	2,723,806
Other, including:	**35,350,537**	**4,572,426**	**220,453**	**121,653**	**407,375**	**40,672,444**
- loan receivables from clients	26,404,240	3,528,454	81,357	121,653	195,911	30,331,615
- buy sell-back transactions	3,132,740	-	-	-	-	3,132,740
- term deposits with credit institutions	4,035,062	897,196	135,322	-	211,464 [1)]	5,279,044
- loans	1,778,495	146,776	3,774	-	-	1,929,045
Total loans and receivables	**38,074,343**	**4,572,426**	**222,418**	**121,653**	**412,211**	**43,403,051**

[1)] including e.g. CZK, UAH, NOK

Loans and receivables as at 31 December 2014	PLN	EUR	HUF	UAH	Other	Total
Debt instruments	**2,951,527**	**-**	**-**	**13,112**	**25,916**	**2,990,555**
Government securities	-	-	-	9,230	25,916	35,146
Fixed rate	-	-	-	9,230	25,916	35,146
Other	2,951,527	-	-	3,882	-	2,955,409
Listed on a regulated market	-	-	-	3,882	-	3,882
Fixed rate	-	-	-	3,882	-	3,882
Not listed on the regulated market	2,951,527	-	-	-	-	2,951,527
Floating rate	2,951,527	-	-	-	-	2,951,527
Other, including:	**10,057,726**	**1,137,511**	**380,702**	**72,068**	**55,919**	**11,703,926**
- buy sell-back transactions	3,250,173	-	-	-	-	3,250,173
- term deposits with credit institutions	4,642,200	1,005,698	380,702	59,262	55,919	6,143,781
- loans	2,165,353	131,813	-	12,806	-	2,309,972
Total loans and receivables	**13,009,253**	**1,137,511**	**380,702**	**85,180**	**81,835**	**14,694,481**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

36. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2015	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Available-for-sale financial instruments	**158,163**	**-**	**-**	**(111,972)**	**(291)**	**-**	**45,900**
Equity instruments	158,163	-	-	(111,972)	(291)	-	45,900
Financial assets held to maturity	**1,235**	**-**	**-**	**-**	**1**	**-**	**1,236**
Debt instruments	1,235	-	-	-	1	-	1,236
Loans	**25,020**	**51,644**	**-**	**(64)**	**(74)**	**-**	**76,526**
Debt instruments	10,144	32,693	-	-	-	-	42,837
Term deposits with credit institutions	-	947	-	-	(55)	-	892
Loans	14,876	18,004	-	(64)	(19)	-	32,797
Receivables, including insurance receivables	**593,647**	**109,679**	**(110,651)**	**(3,337)**	**(1,517)**	**535**	**588,356**
Receivables from direct insurance	565,901	105,007	(105,951)	(1,626)	(1,233)	126	562,224
Reinsurance receivables	5,021	3,059	(4,039)	-	-	2,207	6,248
Other receivables	22,725	1,613	(661)	(1,711)	(284)	(1,798)	19,884
Reinsurers' share in technical provisions	**17,531**	**8,531**	**(15,269)**	**-**	**-**	**-**	**10,793**
Cash and cash equivalents	**-**	**1,389**	**-**	**-**	**(81)**	**-**	**1,308**
Total	**795,596**	**171,243**	**(125,920)**	**(115,373)**	**(1,962)**	**535**	**724,119**

As at the date of consolidating Alior Bank Group, credit 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in impairment losses on financial assets in the year ended 31 December 2014	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Change in group composition	Other changes in impairment losses [2]	Impairment losses – closing balance
Available-for-sale financial instruments	**154,899**	**3,945**	**-**	**-**	**(681)**	**-**	**-**	**158,163**
- equity instruments	154,899	3,945	-	-	(681)	-	-	158,163
Financial assets held to maturity	**1,202**	**-**	**-**	**-**	**33**	**-**	**-**	**1,235**
- debt instruments	1,202	-	-	-	33	-	-	1,235
Loans	**24,725**	**10,242**	**-**	**-**	**86**	**-**	**(10,033)**	**25,020**
Debt instruments	-	10,144	-	-	-	-	-	10,144
Term deposits with credit institutions	9,797	-	-	-	100	-	(9,897)	-
Loans	14,928	98	-	-	(14)	-	(136)	14,876
Receivables, including insurance receivables	**651,579**	**66,974**	**(128,024)**	**(4,269)**	**(3,216)**	**13,273**	**(2,670)**	**593,647**
Receivables from direct insurance	597,608	58,748	(94,279)	(1,418)	(2,616)	10,143	(2,285)	565,901
Reinsurance receivables	4,619	5,319	(4,938)	-	-	21	-	5,021
Other receivables	49,352	2,907	(28,807),[1]	(2,851)	(600)	3,109	(385)	22,725
Reinsurers' share in technical provisions	**4,828**	**21,880**	**(9,178)**	**-**	**1**	**-**	**-**	**17,531**
Total	**837,233**	**103,041**	**(137,202)**	**(4,269)**	**(3,777)**	**13,273**	**(12,703)**	**795,596**

[1] Including reversal of impairment losses in the amount of PLN 26,275 thousand due to a mortgage loan granted to Metro-Projekt Sp. z o.o. described in Note 54.6.

[2] The item presents transfer of impairment losses on PZU Lithuania assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of impairment losses was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Credit quality of financial assets as at 31 December 2015	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	**6,422**	**17,363,704**	**-**	**-**	**-**	**17,370,126**	**1,236**	**-**	**17,371,362**
Available-for-sale financial instruments	**-**	**7,145,750**	**-**	**-**	**-**	**7,145,750**	**-**	**-**	**7,145,750**
Loans	**276,646**	**38,561,467**	**3,476,156**	**202,840**	**885,942**	**43,403,051**	**76,526**	**-**	**43,479,577**
Debt instruments	151,068	2,579,539	-	-	-	2,730,607	42,837	-	2,773,444
Loan receivables from clients [1]	-	25,766,677	3,476,156	202,840	885,942	30,331,615	-	-	30,331,615
Buy sell-back transactions	-	3,132,740	-	-	-	3,132,740	-	-	3,132,740
Term deposits with credit institutions	9,253	5,269,791	-	-	-	5,279,044	892	-	5,279,936
Loans	116,325	1,812,720	-	-	-	1,929,045	32,797	-	1,961,842
Receivables, including insurance receivables	**812,314**	**2,078,579**	**181,934**	**52,134**	**145,832**	**3,270,793**	**58,338**	**530,018**	**3,859,149**
Receivables from direct insurance	691,809	746,750	156,529	49,371	123,804	1,768,263	32,255	529,969	2,330,487
Reinsurance receivables	-	21,189	21,296	785	5,753	49,023	6,248	-	55,271
Other receivables	120,505	1,310,640	4,109	1,978	16,275	1,453,507	19,835	49	1,473,391
Reinsurers' share in technical provisions	**61,910**	**1,034,942**	**-**	**-**	**-**	**1,096,852**	**10,793**	**-**	**1,107,645**
Total	**1,157,292**	**66,184,442**	**3,658,090**	**254,974**	**1,031,774**	**72,286,572**	**146,893**	**530,018**	**72,963,483**

[1] As at the date of consolidating Alior Bank Group, loan receivables from clients were measured at fair value, and thus as at 31 December 2015 no impairment losses on those assets were recognized. According to the best estimation of cash flows determined in contracts whose influence may not be expected, they amounted to PLN 1,937,689 thousand as at the acquisition date. Due to the provisional nature of the settlement of the acquisition of Alior Bank (presented in Note2.4.6.1) the presented fair value of credit receivables may change in the period of 12 months from the acquisition date of Alior Bank (18 December 2015).

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Credit quality of financial assets as at 31 December 2014	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	**-**	**19,983,689**	**-**	**-**	**-**	**19,983,689**	**1,235**	**-**	**19,984,924**
Available-for-sale financial instruments	**-**	**2,434,865**	**-**	**-**	**-**	**2,434,865**	-	-	**2,434,865**
Loans	**193,144**	**14,501,059**	**278**	**-**	**,-**	**14,694,481**	**25,020**	**-**	**14,719,501**
Debt instruments	193,144	2,797,411	-	-	-	2,990,555	10,144	-	3,000,699
Buy sell-back transactions	-	3,250,173	-	-	-	3,250,173	-	-	3,250,173
Term deposits with credit institutions	-	6,143,503	278	-	-	6,143,781	-	-	6,143,781
Loans	-	2,309,972	-	-	-	2,309,972	14,876	-	2,324,848
Receivables, including insurance receivables	**658,762**	**2,029,108**	**142,696**	**36,282**	**218,584**	**3,085,432**	**62,866**	**530,781**	**3,679,079**
Receivables from direct insurance	654,682	791,053	133,175	34,199	96,974	1,710,083	35,250	530,651	2,275,984
Reinsurance receivables	98	20,042	6,266	461	1,815	28,682	5,021	-	33,703
Other receivables	3,982	1,218,013	3,255	1,622	119,795[1)]	1,346,667	22,595	130	1,369,392
Reinsurers' share in technical provisions	**79,569**	**673,546**	**-**	**-**	**-**	**753,115**	**17,531**	**-**	**770,646**
Total	**931,475**	**39,622,267**	**142,974**	**36,282**	**218,584**	**40,951,582**	**106,652**	**530,781**	**41,589,015**

[1)] Including PLN 109,478 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in Note 53.6.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

37. Change in deferred tax assets

Changes in deferred tax assets in the year ended 31 December 2015	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Other changes [1]	Closing balance
Loan receivables from clients	-	-	-	215,127	-	-	215,127
Liabilities to clients	-	-	-	26,772	-	-	26,772
Intangible assets	-	-	-	57,000	-	-	57,000
Financial instruments	(762)	1,070	365	(4,013)	(9)	1,786	(1,563)
Receivables	1,357	(533)	-	89	7	(483)	437
Property	2,025	(1,734)	-	-	12	(3,600)	(3,297)
Provisions for employee benefits	1,139	(479)	(8)	-	(2)	(884)	(234)
Provision for bonuses and deductions for the bonus fund	1,886	335	-	7	(36)	(1,537)	655
Other provisions and accruals	7,688	(1,010)	-	35,000	(344)	(4,388)	36,946
Tax losses to be used in future periods	6,603	(563)	-	2,771	(108)	(5,846)	2,857
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,374	353	-	-	-	-	1,727
Tax allowance regarding operations in the special economic zone	5,647	7,115	-	-	-	-	12,762
Total deferred tax assets	**26,957**	**4,554**	**357**	**332,753**	**(480)**	**(14,952)**	**349,189**

[1]The item presents deferred assets and tax liabilities in some of PZU Group entities.

Changes in deferred tax assets in the year ended 31 December 2014	Opening balance	Changes recognized in profit or loss	Change in group composition	Exchange differences	Other changes [1]	Closing balance
Financial instruments	528	1,824	(2,891)	(223)	-	(762)
Receivables	342	477	494	44	-	1,357
Property	2,689	(303)	(357)	(4)	-	2,025
Provisions for employee benefits	129	(64)	1,081	(7)	-	1,139
Provision for bonuses and deductions for the bonus fund	396	299	1,164	27	-	1,886
Other provisions and accruals	3,506	1,809	2,790	(417)	-	7,688
Tax losses to be used in future periods	685	3,303	4,080	102	(1,567)	6,603
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,406	(32)	-	-	-	1,374
Tax allowance regarding operations in the special economic zone	7,268	(1,621)	-	-	-	5,647
Total deferred tax assets	**16,949**	**5,692**	**6,361**	**(478)**	**(1,567)**	**26,957**

[1]The item presents transfer of PZU Lithuania's assets to assets held for sale due to the transaction described in Note 2.4.1. The decrease of assets was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

For all consolidated entities participating in the TCG, deferred tax assets and provisions are offset.

As at 31 December 2015, undisclosed deferred tax assets related to tax losses were as follows:

- in Link4: PLN 11,481 thousand (as at 31 December 2014: PLN 16,846 thousand);
- in PZU Lietuva Gyvybes Draudimas: PLN 12,422 thousand (as at 31 December 2014: PLN 12,292 thousand);
- in special purpose entities of property funds: PLN 114 thousand.

Losses in Lithuanian company can be realized at a time that is not prescribed by the provisions of law. Tax loss on Link4 can be realized during one year (PLN 188 thousand) and within from 1 to 5 years (PLN 11,293 thousand). These periods will be counted from the moment in which Link4 ceases to be part of the TCG (not earlier than the end of 2017).

38. Receivables, including insurance receivables

Receivables, including insurance receivables – carrying amount	31 December 2015	31 December 2014
Receivables from direct insurance, including:	1,768,263	1,710,083
- receivables from policyholders	1,564,151	1,557,003
- receivables from insurance intermediaries	178,813	127,271
- other receivables	25,299	25,809
Reinsurance receivables	49,023	28,682
Other receivables	1,453,507	1,346,667
Net receivables, including insurance receivables	**3,270,793**	**3,085,432**

Both as at 31 December 2015 and at 31 December 2014, 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, including insurance receivables – by contractual maturity	31 December 2015	31 December 2014
Up to 1 year	3,120,310	2,843,023
Over 1 year and up to 5 years	148,972	137,813
Over 5 years	1,511	104,596
Receivables, including insurance receivables – by contractual maturity	**3,270,793**	**3,085,432**

Receivables, including insurance receivables, by currencies as at 31 December 2015	PLN	EUR	USD	Other	Total
Receivables from direct insurance	1,557,239	200,760	141	10,123	1,768,263
Receivables from policyholders	1,399,651	154,258	141	10,101	1,564,151
Receivables from insurance intermediaries	134,309	44,482	-	22	178,813
Other receivables	23,279	2,020	-	-	25,299
Reinsurance receivables	26,650	4,941	13,745	3,687	49,023
Other receivables	1,016,901	202,196	214,839	19,571	1,453,507
Total receivables, including insurance receivables, by currencies	**2,600,790**	**407,897**	**228,725**	**33,381**	**3,270,793**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Receivables, including insurance receivables, by currencies as at 31 December 2014	PLN	EUR	USD	LTL	UAH	Other	Total
Receivables from direct insurance	1,509,391	97,154	132	92,338	11,068	-	1,710,083
Receivables from policyholders	1,369,247	86,110	132	90,459	11,055	-	1,557,003
Receivables from insurance intermediaries	117,315	9,552	-	391	13	-	127,271
Other receivables	22,829	1,492	-	1,488	-	-	25,809
Reinsurance receivables	16,143	5,602	2,597	-	4,170	170	28,682
Other receivables	1,044,815	118,560	165,148	1,448	2,857	13,839	1,346,667
Total receivables, including insurance receivables, by currencies	**2,570,349**	**221,316**	**167,877**	**93,786**	**18,095**	**14,009**	**3,085,432**

38.1 Other receivables

Other receivables	31 December 2015	31 December 2014
Receivables from the State Budget, other than due to income tax	45,441	153,174
Receivables from debit cards settlements	148,690	-
Receivables from Metro Projekt Sp. z o.o.	-	109,478
Receivables relating to prevention activities	62,111	64,647
Receivables from claims representative services	9,663	9,081
Receivables from security transactions and collateral deposits	782,735	758,394
Trade receivables	269,637	117,242
Receivables from immediate decommissioning charged to policies concluded with other insurance companies	40,414	34,086
Receivables from payments for the purchase of shares	-	20,890
Receivables from banks	26,287	-
Other	68,529	79,675
Total other receivables	**1,453,507**	**1,346,667**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in Note .

The item "Receivables from security transactions and collateral deposits" presents receivables related to transactions regarding financial instruments which have been concluded but unsettled.

38.2 Receivables from operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2015	31 December 2014
Up to 1 year	188,741	155,027
Over 1 year and up to 5 years	430,770	389,566
Over 5 years	137,410	184,977
Total future minimum receivables from lease payments	**756,921**	**729,570**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

39. Current income tax receivables

Current income tax receivables	31 December 2015	31 December 2014
Short-term	67,295	368
Long-term	-	-
Total current income tax receivables	**67,295**	**368**

40. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	31 December 2015	31 December 2014
Balances with the central bank	1,559,981 [1)]	-
Cash in hand and at bank	879,621	323,675
Other cash	261	332
Total cash and cash equivalents disclosed in the statement of financial position and in the cash flow statement	**2,439,863**	**324,007**

[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.

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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

41. Assets held for sale

Assets held for sale before reclassification	31 December 2015	31 December 2014
Groups held for sale	**-**	**188,747**
Assets	-	440,761
Intangible assets	-	4,745
Tangible assets	-	6,864
Financial assets	-	342,639
Receivables, including insurance receivables	-	32,106
Reinsurers' share in technical provisions	-	19,864
Estimated subrogations	-	6,988
Change in deferred tax assets	-	1,591
Deferred acquisition costs	-	15,399
Accruals	-	2,216
Other assets	-	2
Cash and cash equivalents	-	8,347
Liabilities directly associated with assets qualified as held for sale	-	252,014
Technical provisions	-	215,057
Provisions for employee benefits	-	1,464
Other liabilities	-	28,721
Accruals and deferred income	-	6,772
Other assets held for sale	**1,506,048**	**165,849**
Tangible assets	44,221	51,534
Investment property	1,461,827	114,315
Assets and asset groups held for sale	**1,506,048**	**606,610**
Liabilities directly associated with assets qualified as held for sale	**-**	**252,014**

As at 31 December 2014, the item "Groups held for sale" included assets and liabilities of PZU Lithuania that were sold by means of a transaction described in Note 2.4.1.

As at 31 December 2015, the item "Investment property" included mainly the property held for sale by property investment funds as a result of achieving the expected investment horizon (in the amount of PLN 1,345,100 thousand). As at 31 December 2014, this item presented mainly the assets held by PZU and PZU Życie for sale as part of the portfolio optimization project. The table on the following page presents a summary of major properties for sale with their relevant parameters, which were included in the valuation. For comparison, fair values as at 31 December 2014 were also recognized, previously presented in the item "Investment property".

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014 [1)]	Measurement approach	Unobservable data	Ranges of unobservable data as at 31 December 2015	Ranges of unobservable data as at 31 December 2014
1.	Warehouse and office buildings, Łódź	253,100	220,990	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 2)	EUR 7.50 – 9.00 EUR 2.60 – 3.60 2)
2.	Office complex, Gdańsk	165,400	168,910	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Capitalization rate	EUR 12.00 – 16.00 2)	EUR 12.00 – 16.00 2)
3.	Office building, Warsaw	134,400	140,240	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space) Monthly rental rate (parking lot) Capitalization rate	EUR 12.00 – 34.00 EUR 65.00 – 150.00 2)	EUR 7.98 – 22.00 EUR 23.46 – 150.00 2)
4.	Warehouse and office buildings, Gdańsk	130,600	85,070	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.90 – 3.80 2)	EUR 8.00 – 9.00 EUR 2.60 – 3.60 2)
5.	Warehouse and office building, Nowa Wieś Wrocławska	127,600	124,370	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.20 2)	EUR 8.00 – 9.00 EUR 2.40 – 4.20 2)
6.	Warehouses, Czeladź	125,800	129,500	Income approach using the investment method and the cash flows discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.90 – 4.30 2)	EUR 8.00 – 9.00 EUR 3.00 – 4.40 2)
7.	Shopping center, Pabianice	92,300	97,250	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	3) 2)	3) 2)
8.	Retail park, Iława	69,200	69,100	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	3) 2)	3) 2)
9.	Warehouse and office buildings, Łódź	65,400	62,780	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 2)	EUR 7.50 – 9.00 EUR 2.60 – 3.60 2)
10.	Warehouse and office building, Nowa Wieś Wrocławska	65,100	60,50	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m2 (office space in warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 7.50 – 9.00 EUR 2.50 – 4.00 2)	EUR 8.00 – 9.00 EUR 2.40 – 4.20 2)
11.	Warehouse and office	41,800	44,180	Income approach using the investment	Monthly rental rate per 1 m2 (office space in	EUR 7.50 – 9.00	EUR 7.00 – 8.00

No.	Name of the property	Fair value as at 31 December 2015	Fair value as at 31 December 2014 [1]	Measurement approach	Unobservable data	Ranges of unobservable data as at 31 December 2015	Ranges of unobservable data as at 31 December 2014
	building, Błonie			method and the income stream discounting technique	warehouse facilities) Monthly rental rate per 1 m2 (warehouse space) Capitalization rate	EUR 2.50 – 3.60 [2]	EUR 2.10 – 3.00 [2]
12.	Retail building, Nowy Targ	39,100	39,040	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	[3] [2]	[3] [2]
13.	Retail park, Lublin	35,300	38,650	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m^2 of retail space depending on the surface size rented Capitalization rate	[3] [2]	[3] [2]
14.	Other	116,727		n/a	n/a	n/a	n/a
	Total	**1,461,827**	,				

[1] In the consolidated financial statements for 2014, these properties were presented as investment properties.

[2] Capitalization rate was established upon the analysis of return rates in transactions concerning similar properties and with consideration of risk perception by potential investors on the real property market.

[3] 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, in particular is was based on rental rates in contracts signed for the shopping center in question..

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

42. Issued share capital and other equity attributable to the owners of the parent entity

42.1 Share capital

On 30 June 2015, the General Shareholders' Meeting of PZU adopted a resolution on the split of all PZU's shares by lowering the nominal value of each of them from PLN 1 to PLN 0.10 and increasing their number, constituting the share capital, from 86,352,300 to 863,523,000. The split took effect through the exchange of all shares in the ratio of 1:10. The split of shares did not affect the value of PZU's share capital.

On 3 November 2015, the District Court of Warsaw, XII Business Division of the National Court Register, registered changes in the PZU's By-laws. According to the resolution of the Board of the National Depository for Securities of 24 November 2015, the split became effective on 30 November 2015.

All shares are paid in full.

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 (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**			

At 31 December 2014

Series/ issue	Share type	Type of preference	Type of limitation of right issues	Number of shares	Face value of series/issue (PLN)	Capital coverage	Registration date	Right to dividend (since)
A	registered	none	none	4,011	4 011	cash	23.01.1997	27.12.1991
A	bearer's	none	none	60,442,309,	60 442 309	cash	23.01.1997	27.12.1991
B	bearer's	none	none	25,905,980	25 905 980	non-cash contribution	31.03.1999	01.01.1999
Total number of shares				**86,352,300**				
Total share capital					**86,352,300**			

The shareholding structure of PZU and information on transactions regarding significant packages of PZU shares are presented in Note 3.

42.1.1. Appropriation of profit of the parent entity

As regards the distributable profit for 2015 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.

42.1.1.1. Appropriation of profit for 2014

On 12 May 2015, the Management Board of PZU applied to the General Shareholders' Meeting of PZU with a proposal for distributing the net profit of PZU for the year ended 31 December 2014 in the amount of PLN 2,636,733 thousand in the following way:

- PLN 2,590,569, i.e. PLN 30 per share would be allocated for the payment of dividends;
- PLN 36,164 thousand would be allocated to the supplementary capital;

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

- PLN 10,000 thousand would be allocated to the Company's Social Benefits Fund.

On 30 June 2015, the General Shareholders' Meeting 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 2014.

The dividend payment date was set for 30 September 2015, and the dividend was paid on 21 October 2015.

42.1.1.2. Appropriation of profit for 2015

By the date of signing of consolidated financial statements, the Management Board of PZU had not adopted a resolution concerning appropriation of profit for 2015.

42.2 Other capitals

Other capitals	31 December 2015	31 December 2014
Own shares	-	(110)
Supplementary capital	9,947,292	9,678,921
Revaluation reserve	240,677	248,543
Other reserve capital	22	66
Actuarial gains and losses from remeasurements of defined benefit liabilities	(4,404)	(6,179)
Exchange differences from translation	(41,980)	(35,450)
Total other reserves	**10,141,607**	**9,885,791**

42.2.1. Supplementary capital

Supplementary capital	31 December 2015	31 December 2014
Share premium	538,139	538,139
Division of results of the PZU Group entities	9,319,165	9,070,903
Other	(89,988)	69,879
Total supplementary capital	**9,947,292**	**9,678,921**

42.2.2. Revaluation reserve

Revaluation reserve	31 December 2015	31 December 2014
Measurement of available-for-sale financial instruments	129,752	127,260
Property reclassified from property, plant and equipment to investment property	110,054	121,283
Other comprehensive income of entities measured using the equity method	871	-
Total revaluation reserve	**240,677**	**248,543**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	127,260	118,785
Changes	2,492	8,475
- change in fair value	69,434	11,931
- sale	(66,942)	(3,456)
Closing balance	**129,752**	**127,260**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

42.2.3. Exchange differences from translation

Exchange differences from translation	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	(35,450)	(37,737)
Changes in the period:	(6,530)	2,287
Lietuvos Draudimas AB	1,168	6,164
AAS Balta	(126)	5,043
PZU Ukraine	(2,283)	(5,519)
PZU Ukraine Life	(2,752)	(4,472)
Other	(2,537)	1,071
Closing balance	**(41,980)**	**(35,450)**

43. Technical provisions

Technical provisions	31 December 2015	31 December 2014
Technical provisions – non-life insurance	**19,278,600**	**18,410,647**
Unearned premiums reserve	5,642,997	5,133,390
Unexpired risks reserve	119,183	19,257
Outstanding claims provisions	7,706,360	7,258,764
Provisions for the capitalized value of annuities	5,807,892	5,997,595
Provisions for bonuses and rebates for the insured	2,168	1,641
Technical provisions – life insurance	**22,001,721**	**21,756,238**
Unearned premiums reserve	93,816	97,456
Life insurance provision	16,221,886	16,281,625
Outstanding claims provisions	557,680	511,587
Provisions for bonuses and rebates for the insured	494	650
Other technical provisions	383,888	439,364
Unit-linked reserve	4,743,957	4,425,556
Total technical provisions	**41,280,321**	**40,166,885**

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Note 5.18.2.2), which are as follows:

Technical provisions for old portfolio	31 December 2015	31 December 2014
Life insurance provisions	442,996	471,174
Other technical provisions	168,536	194,623
- provisions for low interest rates	108,846	123,273
- provisions for litigations	59,690	71,350
IBNR and RBNP reserve	1,544	2,298
Total technical provisions – old portfolio	**613,076**	**668,095**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

43.1 Technical provisions – non-life insurance

Gross technical provisions by classes specified in section II of the appendix to the Act on Insurance Activity	31 December 2015	31 December 2014
Accident and sickness insurance (group 1 and 2)	408,534	406,557
Motor third-party liability insurance (group 10)	11,769,457	11,620,451
Other motor insurance (group 3)	2,021,902	1,865,335
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	99,768	113,307
Insurance against fire and other damage to property (groups 8, 9)	1,810,367	1,681,882
Third-party liability insurance (groups 11, 12, 13)	2,225,334	2,252,799
Credit insurance and suretyship (groups 14, 15)	188,681	162,080
Assistance (group 18)	184,289	151,905
Legal protection (group 17)	5,393	2,782
Other (group 16)	564,875	153,549
Total technical provisions	**19,278,600**	**18,410,647**

Technical provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on Insurance Activity	31 December 2015	31 December 2014
Accident and sickness insurance (group 1 and 2)	407,917	405,573
Motor third-party liability insurance (group 10)	11,505,928	11,366,417
Other motor insurance (group 3)	1,989,171	1,829,788
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	64,873	87,795
Insurance against fire and other damage to property (groups 8, 9)	1,523,481	1,501,794
Third-party liability insurance (groups 11, 12, 13)	2,142,140	2,172,237
Credit insurance and suretyship (groups 14, 15)	112,373	94,747
Assistance (group 18)	179,650	147,603
Legal protection (group 17)	5,392	2,781
Other (group 16)	250,981	48,852
Total technical provisions	**18,181,906**	**17,657,587**

Technical provisions – non-life insurance	31 December 2015	31 December 2014
Short-term	5,326,890	4,411,180
Long-term	13,951,710	13,999,467
Total technical provisions	**19,278,600**	**18,410,647**

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, from 31 December 2015.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in provisions

Change in unearned premiums reserve in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,133,390	(302,118)	4,831,272	4,428,845	(209,940)	4,218,905
Increase (decrease) in provisions for policies concluded in the current year	5,212,891	(248,995)	4,963,896	4,335,362	(258,368)	4,076,994
Increase (decrease) in provisions for policies concluded in previous years	(4,689,324)	207,871	(4,481,453)	(4,157,746)	174,566	(3,983,180)
Exchange differences during the period	(13,960)	4,085	(9,875)	(18,556)	5,948	(12,608)
Change in group composition	-	-	-	642,510	(19,282)	623,228
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(97,025)	4,958	(92,067)
Closing balance	**5,642,997**	**(339,157)**	**5,303,840**	**5,133,390**	**(302,118)**	**4,831,272**

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3.

Change in unexpired risk reserve in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	19,257	-	19,257	8,770	(16)	8,754
Increase (decrease) in provisions for policies concluded in the current year	115,696	-	115,696	17,077	12	17,089
Increase (decrease) in provisions for policies concluded in previous years	(15,378)	-	(15,378)	(5,316)	-	(5,316)
Exchange differences during the period	(392)	-	(392)	(561)	4	(557)
Change in group composition	-	-	-	12,739	-	12,739
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(13,452)	-	(13,452)
Closing balance	**119,183**	**-**	**119,183**	**19,257**	**-**	**19,257**

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Change in outstanding claims provisions in non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	7,258,764	(296,900)	6,961,864	6,041,030	(170,375)	5,870,655
- for claims reported	2,704,345	(228,795)	2,475,550	2,072,193	(121,826)	1,950,367
- for claims incurred but not reported (IBNR)	2,868,611	(46,259)	2,822,352	2,615,113	(29,989)	2,585,124
- for claims handling expenses	1,685,808	(21,846)	1,663,962	1,353,724	(18,560)	1,335,164
Paid benefits concerning claims incurred in previous years, including:	(2,051,618)	51,404	(2,000,214)	(1,575,921)	54,322	(1,521,599)
- paid claims and benefits	(1,721,861)	46,959	(1,674,902)	(1,313,456)	50,481	(1,262,975)
- claims handling costs	(329,757)	4,445	(325,312)	(262,465)	3,841	(258,624)
Increase (decrease) in provisions, including:	2,506,646	(334,282)	2,172,364	2,450,810	(167,606)	2,283,204
- for losses incurred in the current year	2,631,146	(342,841)	2,288,305	2,041,127	(44,022)	1,997,105
- for losses incurred in previous years	(124,500)	8,559	(115,941)	409,683	(123,584)	286,099
Other changes	-	(2,904)	(2,904)	2	8,789	8,791
Exchange differences during the period	(7,432)	3,569	(3,863)	(10,665)	6,304	(4,361)
Change in group composition	-	-	-	454,412	(42,844)	411,568
Transfers to assets held for sale in accordance with IFRS 5 [1)]	-	-	-	(100,904)	14,510	(86,394)
Closing balance	**7,706,360**	**(579,113)**	**7,127,247**	**7,258,764**	**(296,900)**	**6,961,864**
- for claims reported	3,146,098	(527,713)	2,618,385	2,704,345	(228,795)	2,475,550
- for claims incurred but not reported (IBNR)	2,825,240	(28,973)	2,796,267	2,868,611	(46,259)	2,822,352
- for claims handling expenses	1,735,022	(22,427)	1,712,595	1,685,808	(21,846)	1,663,962

[1)] Transfer of PZU Lithuania's assets to liabilities held for sale due to the transaction described in Note 2.4.1. The decrease of provisions was translated at average rate described in Note 5.3

Change in provisions for the capitalized value of annuities – non-life insurance	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,997,595	(154,042)	5,843,553	5,761,332	(146,180)	5,615,152
Paid claims concerning losses incurred in previous years	(215,114)	5,853	(209,261)	(182,358)	15,853	(166,505)
Increase (decrease) in provisions for losses incurred in the previous years	(115,827)	(26,158)	(141,985)	76,457	(17,444)	59,013
Changes in assumptions resulting from technical interest rate changes	(15,044)	85	(14,959)	(17,284)	446	(16,838)
Increase in provisions for losses incurred in the current year	166,396	(22)	166,374	278,344	(587)	277,757
Other changes	(10,098)	(4,146)	(14,244)	-	3,916	3,916
Exchange differences during the period	(16)	6	(10)	(8)	40	32
Change in group composition	-	-	-	81,112	(10,086)	71,026
Closing balance	**5,807,892**	**(178,424)**	**5,629,468**	**5,997,595**	**(154,042)**	**5,843,553**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

43.2 Technical provisions – life insurance

Change in life insurance provision – insurance contracts	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	16,721,639	-	16,721,639	16,526,794	-	16,526,794
Increase (decrease) in provisions related to current year policies	434,269	-	434,269	490,085	-	490,085
Increase (decrease) in provisions related to prior year policies	(527,141)	-	(527,141)	(306,608)	-	(306,608)
Changes in assumptions resulting from technical interest rate changes	498	-	498	45,395	-	45,395
Exchange differences	(22,997)	-	(22,997)	(34,027)	-	(34,027)
Closing balance	**16,606,268**	-	**16,606,268**	**16,721,639**	**-**	**16,721,639**

Gross change in life unit-linked insurance provision	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4,425,556	-	4,425,556	3,907,221	-	3,907,221
Increases in the fund due to premiums	965,607	-	965,607	1,045,805	-	1,045,805
Payments deducted from the fund for risk, administration and other	(89,502)	-	(89,502)	(90,026)	-	(90,026)
Revenue from the fund's investments	(3,471)	-	(3,471)	147,597	-	147,597
Decreases in the fund due to claims, redemptions, etc.	(538,013)	-	(538,013)	(547,991)	-	(547,991)
Other decreases	(38,307)	-	(38,307)	(60,274)	-	(60,274)
Other increases	22,087	-	22,087	23,224,	-	23,224
Closing balance	**4,743,957**	**-**	**4,743,957**	**4,425,556**	**-**	**4,425,556**

Gross change in provisions for outstanding claims	1 January - 31 December 2015			1 January - 31 December 2014		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share
RBNP at the beginning of the period	112,728	-	112,728	138,366	-	138,366
IBNR at the beginning of the period	398,859	-	398,859	407,385	-	407,385
Total RBNP and IBNR at the beginning of the period	**511,587**	**-**	**511,587**	**545,751**	**-**	**545,751**
Provisions for claims applied during the year	(564,032)	-	(564,032)	(523,413)	-	(523,413)
Provisions for claims created during the year	610,125	(60)	610,065	489,249	-	489,249
Total RBNP and IBNR at the end of the period	**557,680**	**(60)**	**557,620,**	**511,587**	**-**	**511,587**
RBNP at the end of the period	155,146	(60)	155,086,	112,728	-	112,728
IBNR at the end of the period	402,534	-	402,534	398,859	-	398,859

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

44. 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 6.2.6.

Provisions for employee benefits	31 December 2015	31 December 2014
Provision for employee leaves	66,654	71,923
Defined benefit plans	47,442	44,384
- provisions for retirement severence pay	23,287	20,923
- provisions for death benefits	24,155	23,461
Other long-term employee benefits	3,302	3,763
Total provisions for employee benefits	**117,398**	**120,070**

Net income and expenses related to provisions for employee benefits	1 stycznia - 31 grudnia 2015	1 stycznia - 31 grudnia 2014
Net revenue (expenses) recognized in profit or loss	**(4,568)**	**(1,505)**
Defined benefit plans	(4,381)	(1,492)
- provisions for retirement severance pay	(1,889)	(1,896)
- provisions for death benefits	(2,492)	404
Other long-term employee benefits	(187)	(13)
Net revenue (expenses) recognized in other comprehensive income	**2,128**	**(8,438)**
Defined benefit plans	2,095	(7,933)
- provisions for retirement severance pay	931	(3,306)
- provisions for death benefits	1,164	(4,627)
Other long-term employee benefits	33	(505)
Total net income and expenses related to provisions for employee benefits	**(2,440)**	**(9,943)**

44.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	20,923	12,141
Changes recognized in profit or loss account	1,889	1,896
- current service cost	1,547	1,561
- past service cost	51	185
- interest income or expense	291	150
Remeasurement of provision (changes recognized in other comprehensive income)	(931)	3,306
- actuarial profits and losses resulting from changes in demographic assumptions	(23)	(271)
- actuarial profits and losses resulting from changes in financial assumptions	(929)	3,577
- other	21	-
Exchange differences	5	56
Benefits paid	(681)	(548)
Change in group composition	2,082	4,072
Closing balance	**23,287**	**20,923**

Total expected cash flows from retirement benefits since the end of the financial year	31 December 2015	31 December 2014
Up to 3 months	827	608
Over 3 months and up to 1 year	1,334	908
Over 1 year and up to 5 years	4,243	3,274
Over 5 years	75,040	69,207
Total	**81,444**	**73,997**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

44.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January - 31 December 2015	1 January - 31 December 2014
Opening balance	23,461	19,224
Changes recognized in profit or loss account	2,492	(404)
- current service cost	1,663	2,195
- past service cost	468	(2,685)
- interest income or expense	361	86
Remeasurement of provision (changes recognized in other comprehensive income)	(1,164)	4,627
- actuarial profits and losses resulting from changes in demographic assumptions	(235)	227
- actuarial profits and losses resulting from changes in financial assumptions	(1,074)	4,400
- other	145	-
Benefits paid	(634)	(81)
Change in group composition	-	95
Closing balance	**24,155**	**23,461**

Total expected cash flows from death benefits since the end of the financial year	31 December 2015	31 December 2014
Up to 3 months	320	299
Over 3 months and up to 1 year	1,103	948
Over 1 year and up to 5 years	6,513	6,043
Over 5 years	83,167	79,873
Total	**91,103**	**87,163**

45. Other provisions

Other provisions	31 December 2015	31 December 2014
Short-term	94,353	177,400
Long-term	13,756	13,806
Total other provisions	**108,109**	**191,206**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in other provisions in the year ended 31 December 2015	Opening balance	Increase	Use	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses [1)]	9,354	3,760	(6,604)	(3,733)	-	-	2,777
Provision for disputed claims and potential liabilities	781	56	-	-	3,219	-	4,056
Provision for the Office of Competition and Consumer Protection penalties [2)]	119,551	3	(50,384)	(11,290)	-	-	57,880
Provision for exit costs of the GraphTalk project [3)]	22,668	338	(17,392)	-	-	-	5,614
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,234	1,881	(23)	-	-	-	9,092
Other	31,618	15,409	(16,020)	(9,310)	7,106	(113)	28,690
Total other provisions	**191,206**	**21,447**	**(90,423)**	**(24,333)**	**10,325**	**(113)**	**108,109**

[1)] Provisions for restructuring expenses are described in Note 56.2.

[2)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in Note 53.2 and 53.3.

[3)] Additional information is presented in Note 53.4.

Changes in other provisions in the year ended 31 December 2014	Opening balance	Increase	Use	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses	-	17,687	(8,333)	-	-	-	9,354
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(2,583)	-	-	781
Provision for the Office of Competition and Consumer Protection penalties [1)]	119,549	2	-	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	509	-	(28,785)	-	-	22,668
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	-	7,234
Other	11,021	14,878	(4,506)	(2,489)	12,522	192	31,618
Total other provisions	**192,906**	**33,365**	**(13,006)**	**(34,773)**	**12,522**	**192**	**191,206**

[1)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in Notes 53.2 and 53.3.

Provision for the GraphTalk project exit costs

The total "Provision for the GraphTalk project exit costs" includes PZU Życie provision created for the costs of closing the IT GraphTalk project.

The provision was established in relation to completion of the GraphTalk project and failure to meet economic objectives. Additionally the provisions amount includes estimation of potential liabilities due to litigation with CSC Computer Sciences Sp. z o.o. – aspect described in Note 54.4.

Provision for PTE's reimbursement of undue fees to the Social Security Institution

A detailed method for determining and settlement of undue premiums to be returned is regulated in Article 100a of the Act on organization and operation of pension funds of 28 August 1997 (Journal Laws of 2013, item 989, as amended) pursuant to which if premiums unduly received are returned, the nominal amount of the service fee collected by the pension society managing a given fund should be returned to the Social Insurance Institution as well.

Since 2008, PTE PZU has been maintaining a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The calculation is made on the basis of information provided by the Social Security Institution for the years 1999-2015, and the rate of payment of premiums charged by PTE PZU and deducted by the Social Security Institution from the premiums.

Due to the fact that, as at signing of the consolidated financial statements, not all required information has been received from the Social Security Institution, it is not possible to specify the date of return of the fees on premiums.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

46. Deferred tax liabilities

Changes in deferred tax liabilities in the year ended 31 December 2015 [1)]	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Exchange differences	Change in group composition	Closing balance
Financial instruments	281,546	(51,447)	769	69	1,786	232,723
Subrogation receivables	(2,004)	402	-	(2)	(130)	(1,734)
Property	36,750	16,359	1,657	5	(3,461)	51,310
Deferred acquisition costs	121,476	83,632	-	-	-	205,108
Accrued revenue and reinsurance costs	(24,004)	39,074	-	-	-	15,070
Provisions for employee benefits	(20,680)	6,533	403	(18)	(884)	(14,646)
Provision for bonuses	(43,573)	1,232	-	(30)	(1,537)	(43,908)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(47,359)	(2,360)	-	-	-	(49,719)
Other provisions and accruals	(104,399)	28,668	-	(50)	(4,143)	(79,924)
Prevention Fund	18,476	(2,234)	-	-	-	16,242
Equalization provision	113,543	7,019	-	-	-	120,562
Provision for restructuring expenses	(1,777)	1,249	-	-		(528)
Tax losses to be used in future periods	(87)	(13,247)	-	(80)	(5,772)	(19,186)
Other differences	70,525	8,110	-	(263)	(585)	77,787
Total deferred tax liabilities	**398,433**	**122,990**	**2,829**	**(369)**	**(14,726)**	**509,157**

[1)] Compensation of deferred tax assets and liabilities of companies included in the TCG is described in Note 37.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Changes in deferred tax liabilities in the year ended 31 December 2014 [1)]	Opening balance	Changes recognized in profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Closing balance
Financial instruments	246,912	27,175	1,743	5,716	-	281,546
Subrogation receivables	(2,399)	395	-	-	-	(2,004)
Property	13,271	20,807	3,166	(493)	(1)	36,750
Deferred acquisition costs	110,706	10,770	-	-	-	121,476
Accrued revenue and reinsurance costs	(20,032)	(3,972)	-	-	-	(24,004)
Provisions for employee benefits	(21,499)	2,889	(1,526)	(544)	-	(20,680)
Provision for bonuses	(41,199)	(2,123)	-	(251)	-	(43,573)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(52,389)	5,038	-	(8)	-	(47,359)
Other provisions and accruals	(108,108)	3,709	-	-	-	(104,399)
Prevention Fund	31,397	(12,921)	-	-	-	18,476
Equalization provision	112,116	1,427	-	-	-	113,543
Provision for restructuring expenses	-	(1,777)	-	-	-	(1,777)
Other differences	(13,377)	4,835	-	78,204	776	70,438
Total deferred tax liabilities	**255,399**	**56,252**	**3,383**	**82,624**	**775**	**398,433**

[1)] Compensation of deferred tax assets and liabilities of companies included in the TCG is described in Note 34.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

47. Financial liabilities

Financial liabilities	31 December 2015	31 December 2014
Financial liabilities measured at fair value	**1,989,847**	**2,069,976**
Derivatives held for trading	940,484	625,844
Unit-linked investment contracts	392,914	587,267
Liabilities to participants of consolidated investment funds	656,449	856,865
Financial liabilities measured at amortized cost	**42,497,976**	**7,333,268**
Liabilities to banks	600,298	219,452
Current deposits	11,012	-
Overnight deposits	30,701	-
Term deposits	197,826	-
Issuance of securities (Alior Bank)	32,666	-
Credits received	124,780	219,452
Other liabilities	203,313	-
Liabilities to clients	33,655,744	-
Current deposits	12,475,022	-
Term deposits	18,529,163	-
Issuance of bank securities (Alior Bank)	2,259,230	-
Other liabilities	392,329	-
Liabilities arising from the issue of own debt instruments	3,536,546	2,127,527
Subordinated liabilities (Alior Bank)	758,560	-
Liabilities from sell buy-back transactions	3,794,306	4,411,497
Liabilities from loans	-	53,952
Investment contracts with guaranteed and fixed terms and conditions	152,522	520,840
Total financial liabilities	**44,487,823**	**9,403,244**

Financial liabilities by maturity	31 December 2015	31 December 2014
Up to 3 months	29,662,084	5,362,578
Over 3 months and up to 1 year	6,118,782	43,925
Over 1 year and up to 5 years	6,932,114	2,261,463
Over 5 years	288,923	1,327
With indefinite maturity date	1,485,920	1,733,951
Total financial liabilities by maturity	**44,487,823**	**9,403,244**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Total financial liabilities by currency as at 31 December 2015	PLN	EUR	USD	GBP	Other	Total
Financial liabilities measured at fair value	**1,557,985**	33,815	83,697	**-**	**314,350**	**1,989,847**
Derivatives held for trading	508,622	33,815	83,697	-	314,350	940,484
Unit-linked investment contracts	392,914	-	-	-	-	392,914
Liabilities to participants of consolidated investment funds	656,449	-	-	-	-	656,449
Financial liabilities measured at amortized cost	**34,598,683**	**5,938,243**	**1,456,948**	**289,559**	**214,543**	**42,497,976**
Liabilities to banks	362,965	35,927	190,991	10,415	-	600,298
Liabilities to clients	29,573,148	2,322,952	1,265,957	279,144	214,543	33,655,744
Liabilities arising from the issue of own debt instruments (PZU)	-	3,536,546	-	-	-	3,536,546
Subordinated liabilities (Alior Bank)	715,742	42,818	-	-	-	758,560
Liabilities from sell buy-back transactions	3,794,306	-	-	-	-	3,794,306
Investment contracts with guaranteed and fixed terms and conditions - measured at amortized cost	152,522	-	-	-	-	152,522
Total financial liabilities by currency	**36,156,668**	**5,972,058**	**1 540 645**	**289,559**	**528,893**	**44,487,823**

Total financial liabilities by currency as at 31 December 2014	PLN	EUR	USD	Other	Total
Financial liabilities measured at fair value	**1,802,654**	49,522	66,536	**151,264**	**2,069,976**
Derivatives held for trading	358,522	49,522	66,536	151,264	625,844
Unit-linked investment contracts	587,267	-	-	-	587,267
Liabilities to participants of consolidated investment funds	856,865	-	-	-	856,865
Financial liabilities measured at amortized cost	**5,058,905**	**2,185,056**	**89,307**	**-**	**7,333,268**
Liabilities to banks	72,616	57,529	89,307	-	219,452
Liabilities arising from the issue of own debt instruments (PZU)	-	2,127,527	-	-	2,127,527
Liabilities from sell buy-back transactions	4,411,497	-	-	-	4,411,497
Liabilities from loans	53,952	-	-	-	53,952
Investment contracts with guaranteed and fixed terms and conditions – measured at amortized cost	520,840	-	-	-	520,840
Total financial liabilities by currency	**6,861,559**	**2,234,578**	**155,843**	**151,264**	**9,403,244**

47.1 Subordinated liabilities

Total balance of subordinated liabilities concerns liabilities incurred by Alior Bank.

	Nominal value	Rate	Date of issue/ granting a loan	Date of redemption/ loan payment
Liabilities recognized as own funds				
Subordinated loan (EUR thousand)		EURIBOR 3M	12 October 2011	12 October 2019
F series bonds (PLN thousand)		WIBOR 6M	26 September 2014	26 September 2024
G series bonds (PLN thousand)		WIBOR 6M	31 March 2015	31 March 2021
I and I1 series bonds (PLN thousand)		WIBOR 6M	4 December 2015	6 December 2021
Meritum Bank bonds (PLN thousand)		WIBOR 6M	29 April 2013	29 April 2021
Meritum Bank bonds (PLN thousand)		WIBOR 6M	21 October 2014	21 October 2022

Subordinated liabilities, carrying amount	31 December 2015
Liabilities recognized as own funds	**758,560**
Subordinated loan	42,818
F series bonds	224,633
G series bonds	195,555
I series bonds	114,145
I1 series bonds	33,482
Meritum Bank bonds	147,927
Subordinated liabilities	**758,560**

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.

47.2 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:

Issue date	16 October 2015	3 July 2014
Face value of issue (EUR thousand)	350,000	500,000
Issue price of one bond (EUR)	99,218	99,407
Nominal rate	1.375%	1.375%
Frequency of coupon payment	1 year	1 year
Bond yield at issue	1.593%	1.499%

The bonds have been classified as measured at amortized cost.

Undiscounted cash flows from the issued debt securities	31 December 2015	31 December 2014
Up to 1 year	48,705	29,303
Over 1 year and up to 5 years	3,688,273	2,248,363
Total	**3,736,978**	**2,277,666**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

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. The maximum value of the guarantee expires upon the expiry of the claims of the bondholders towards PZU Finance AB (publ).

Eurobonds were issued within PZU Group's strategy of matching assets and liabilities denominated in EUR. After having acquired the Baltic companies, an important portion of PZU Group's assets became dependent upon the euro exchange rate. Therefore, the Group decided to issue the Eurobonds in this currency.

47.3 Investment contracts

Total expected cash flows from investment contracts	31 December 2015	31 December 2014
Up to 1 year	504,864	989,481
Over 1 year and up to 5 years	44,562	124,908
Total	**549,426**	**1,114,389**

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" described in Note 39.4 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" (presented in Note 39.3, and bank deposits.

47.4 Liabilities from sell buy-back transactions

Transactions were secured with financial instruments, described in Note 52.1.

Presented below is the basic characteristics of the sell buy-back transactions as at 31 December 2015.

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	3,794,306	PLN	3,808,541	Treasury bonds	3,687,380
Total	**3,794,306**		**3,808,541**		**3,687,380**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

48. Other liabilities

Other liabilities	31 December 2015	31 December 2014
Accrued costs	**1,008,246**	**743,655**
Accrued costs of brokers' commissions	272,153	250,867
Accrued remuneration costs	114,245	131,759
Accrued costs from reinsurance	412,227	214,268
Accrued employee bonuses	86,283	94,558
Other	123,338	52,203
Deferred income	**116,682**	**33,374**
Other liabilities	**2,553,083**	**3,042,482**
Direct insurance liabilities	696,166	686,714
Reinsurance liabilities	96,718	94,384
Liabilities to the State Budget, other than due to income tax	34,576	30,001
Public legal settlements:	51,538,	25,701
Liabilities to employees	9,110	13,106
Insurance Guarantee Fund	11,247	11,794
Liabilities arising from financial instrument transactions	572,240	444,089
Liabilities from acquisition of third share installment of Alior Bank	341,709	-
Liabilities to PZU shareholders (dividends)	2,982	1,471,120
Trade payables to suppliers	122,078	89,787
Estimated non-insurance liabilities	175,786	133,359
Liabilities towards banks due to payment instruments cleared by the National Clearing House	183,574	-
Provision for withdrawals	94,045	-
Liabilities of Alior Bank due to banking product insurance offered to the clients of the bank	66,941	-
Direct claims handling liabilities	11,113	-
Other	83,260	42,427
Total other liabilities	**3,678,011**	**3,819,511**

As at 31 December 2015 and 31 December 2014 the fair value of other liabilities did not differ substantially from their carrying amount, due to the fact that over 98% of them are short-term liabilities.

Liabilities by maturity	31 December 2015	31 December 2014
Up to 1 year	3,627,723	3,783,663
Over 1 year and up to 5 years	41,571	33,025
Over 5 years	8,717	2,823
Total liabilities by maturity	**3,678,011**	**3,819,511**

48.1 Direct insurance liabilities

Direct insurance liabilities	31 December 2015	31 December 2014
Liabilities to policyholders	390,038	408,721
Liabilities to insurance intermediaries	177,507	172,492
Other insurance liabilities	128,621	105,501
Total direct insurance liabilities	**696,166**	**686,714**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

48.2 Liabilities from operating leases

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.

Liabilities due to minimum operating lease fees	31 December 2015	31 December 2014
Up to 1 year	115,739	27,795
Over 1 year and up to 5 years	261,708	57,573
Over 5 years	25,431	7,856
Total liabilities due to minimum operating lease fees	**402,878**	**93,224**

Operating lease liabilities recognized in profit or loss account or a given period	1 January - 31 December 2015	1 January - 31 December 2014
Minimum operating lease fees	61,198	98,827
Subleasing fees	50	(10)
Total	**61,248**	**98,817**

49. Current income tax liabilities

As at 31 December 2015 and 31 December 2014, all current income tax liabilities were short-term.

50. Notes to other inflows and outflows from operating activities

Other inflows from operating activities	1 January - 31 December 2015	1 January - 31 December 2014
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programs	712	-
Inflows from the core business of non-insurance companies	672,954	524,014
Tax refunds (e.g. CIT, VAT)	192,218	106,621
Inflows from the liquidation of the additional part of the Guarantee Fund of PZU OPF	-	132,267
Other	515,650 [1)]	261,169
Total	**1,381,534**	**1,024,071**

[1)] Including PLN 109,478 thousand in return of receivables from Metro Projekt Sp. z o.o. Addditional information is presented in Note 53.6

Other operating outflows	1 January - 31 December 2015	1 January - 31 December 2014
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programs	-	2,522
Gross premiums returns	485,351	438,798
Costs of the core business of non-insurance companies	681,197	607,718
Donations made	118	31,446
Taxes	224,222	283,339
Other	613,594	521,938
Total	**2,004,482**	**1,885,761**

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

51. Assets recognized as collateral of receivables, liabilities and contingent liabilities

51.1 Financial assets recognized as collateral of liabilities

As at 31 December 2015 the treasury bonds with the carrying amount of PLN 3,808,541 thousand (as at 31 December 2014: PLN 4,413,363) held by the companies in PZU Group were used as collateral of the sell buy-back transactions described in Note 50.2

51.2 Financial assets recognized as collateral for granted loans

As at 31 December 2015 and 31 December 2014, 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 Note 39.4

51.3 Tangible assets

As at 31 December 2015, assets held for sale were mortgaged up to the total amount of PLN 51,209 thousand (as at 31 December 2014: PLN 51,209 thousand).

52. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2015	31 December 2014
Contingent assets, including:	33,126	20,976
- guarantees and sureties received	33,126	20,976
- Contingent liabilities	10,081,994	265,709
- resulting from renewable limit in current and saving account and credit cards	7,371,753	-
- guarantees and sureties issued	1,576,178	7,133
- disputed claims related to insurance	389,854 [1)]	185,109
- other disputed claims	211,282 [2)]	36,264
- other, including:	532,927	37,203
- non-granted loan installments	472,988	-
- potential liabilities arising from loan agreements entered into by the Armatura Group	31,478	34,115

[1)] Wzrost wartości roszczeń ubezpieczeniowych spornych wynika ze wzrostu ich liczby, przede wszystkim w PZU.

[2)] W tym 169 328 tys. zł roszczeń dotyczących sprawy pozwu o odszkodowanie z tytułu pozbawienia prawa do dywidendy, o której mowa w punkcie 53.1.

52.1 Loan facility, loan collateral or guarantees granted by PZU or its subsidiaries

The guarantee issued by PZU in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company, described in Note 47.2.

52.2 Potential litigation related to the continued family insurance

In 1998, proceedings before the Supreme Court regarding revaluation of the sum insured in continued family insurance were concluded, as a result of which PZU was obliged to pay claims exceeding the amount under the insurance contract. Additionally, in several cases district courts issue similar judgments.

PZU Życie is of the opinion, that the insured under individually continued family insurance policies have been entitled to increase the sum insured. Therefore, any claims regarding revaluation are groundless if the sum insured has not been increased. If in similar cases courts issue judgments on revaluation of claims, increasing the sum insured, it may have adverse consequences for the Polish insurance system as a whole. If in the future claims are reported or lawsuits brought by the insured against PZU Życie regarding continued family insurance, the Company will firmly oppose revaluation of claims above the sum insured specified in the insurance policy.

Therefore, the Management Board of PZU Życie believes, there are no reasonable grounds for disclosing any provisions for potential claims relating to the continued family insurance portfolio in the consolidated financial statements.

53. 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 the PZU Group entities pertain to two companies: PZU and PZU Życie. In addition, PZU and PZU Życie participate in proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

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 2015 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 2015, the total value of all 121,918 cases heard by courts (as at 31 December 2014: 60,534), competent authority for arbitration proceedings or public administration authority involving the PZU Group entities amounted to PLN 4,898,275 thousand (as at 31 December 2014: PLN 3,056,350 thousand). The amount includes PLN 3,131,109 thousand of liabilities (as at 31 December 2014: PLN 2,509,850 thousand) and PLN 1,767,166 thousand of debt of the PZU Group entities (as at 31 December 2014: PLN 546,500 thousand), which accounted for 25.29% and 14.28% of the PZU equity respectively (as at 31 December 2014 20.36% and 4.43% respectively), calculated in line 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.

53.1 Resolution of the General Shareholders Meeting 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 3,280,883 thousand in the following manner:

- PLN 3,260,883 thousand to the supplementary capital;
- PLN 20,000 thousand 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 GSM 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 GSM of 30 May 2012 included a Note 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 seeks 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 5,054 thousand. 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 and appealed to the Supreme Court to refuse accepting the cassation appeal, or dismiss it.

On 16 December 2014, MSC requested PZU in the letter to pay PLN 264,865 thousand 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 refused to fulfill the obligation.

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 169,328 thousand 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 Shareholders' Meeting of PZU on 30 July 2007. The case is being handled by the District Court in Warsaw, XX Business Division. On 18 December 2015, PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

According to the Management Board, MSC's claims are unfounded. As a result, as at 31 December 2015, no changes in the presentation of PZU capitals were made that may result from cancellation of the resolution of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company’s Social Benefits Fund were not adjusted.

53.1.1. 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 56,281 thousand and the amount of PLN 618 thousand 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 refused to fulfill the obligation.

Apart from the above mentioned documents, the shareholders or the former shareholders 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 request the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

53.1.2. 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 56,281 thousand. At the hearing on 19 February 2015, PZU refused to conclude a settlement.

On 2 February 2015, the District Court of Warsaw delivered a copy of a motion of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014. At the hearing on 24 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 four proceedings, The District Course for Warszawa Śródmieście in Warsaw dismissed the claims in their entirety (judgments are final). In one case, the District Court discontinued the proceedings due to the withdrawal of the claim (the decision is final).

53.2 Proceedings conducted by the Office of Competition and Consumer Protection ("OCCP") against PZU

53.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting of:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with both the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection ("SOKiK") dated 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final and was executed through the payment of the awarded financial penalty effected by PZU. 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgment. On 24 July 2014, PZU received a response of President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration. 9 September 2015, the Supreme Court dismissed the cassation appeal of PZU. The judgment is final and without appeal.

53.2.2. Fines imposed in 2011

53.2.2.1. Reimbursement of the costs of rental of a replacement car

In a decision of 18 November 2011, the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe the collective interest of consumers, as described in Article 24. 1 and 24.2 of the Act on competition and consumer protection (Journal of Laws No. 50 of 2007, item. 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons. On 5 December 2011, PZU appealed against the decision (thus the decision did not become valid).

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court. At the hearing on 9 September 2015, the Supreme Court ruled in favor of PZU, stating that in relation to the insurer, in an event covered by the compulsory TPL of the motor vehicle's owner, the claimant involved in a traffic accident does not have a status of a consumer. As a result of the Supreme Court's consideration of the above mentioned legal issue, the Appellate Court in Warsaw resumed the proceedings and closed the case during its session of 26 January 2015. The delivery of the judgment was postponed to 1 February 2016. By judgment of 1 February 2016, the Appellate Court allowed the appeal of PZU and changed the decision of the District Court in Warsaw in its entirety, annulling the decision of the President of OCCP o 18 November 2011 in its entirety, and adjudged the return of proceeding's expenses by the President of OCCP in favor of PZU. The judgment of the Appellate Court is final and non-appealable. On 2 February 2016, PZU submitted a request concerning delivery of the judgment of the Appellate Court and the substantiation. The President of OCCP submitted similar request on 3 February 2016.

In light of the above, PZU released the maintained provision in the amount of PLN 11,287 thousand.

53.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011, the President of OCCP imposed a fine on PZU of PLN 56,605 thousand 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 President of OCCP to its appeal. On 27 March 2015, CCCP 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.

PZU recognized a provision for the above fine, whose amount both as at 31 December 2015 and 31 December 2014 was PLN 56,605 thousand.

53.3 Proceedings conducted by 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 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees 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 several years of proceedings, in a ruling of 17 February 2011 the CCCP partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

On 9 May 2013, the Appellate Court in Warsaw admitted the charges filed by PZU Życie and reversed the judgment of the CCCP on grounds of nullity of legal proceedings, cancelled the proceedings to the extent that they were null and remanded the matter for a new trial before the CCCP.

As a result of further proceedings, in the judgment of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014, PZU Życie appealed against the judgment of the CCCP of 28 March 2014 pertaining to the judgment in its entirety. The court sent a copy of the appeal to the defendant and other participants who submitted a response to the appeal. The files were sent to the Appellate Court in Warsaw. On 2 July 2015, PZU Życie filed a response to the appeal, which was followed by a further exchange of pleadings. The appeal hearing was held on 3 September 2015 and on 17 September 2015 the Appellate Court dismissed PZU Życie's appeal in its entirety and adjudged the return of proceeding's expenses by PZU Życie. The judgment is final and non-appealable. PZU Życie paid the imposed fee in the amount of PLN 50,384 thousand and the costs it was charged with. PZU Życie received the judgment and the substantiation on 20 January 2016. Currently, PZU Życie is assessing the appropriateness of issuing an appeal. The final date of appealing is 21 March 2016.

53.4 Dispute with CSC Computer Sciences Polska Sp. z o.o.

On 9 April 2010, the Arbitration Court served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. ("CSC") which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment. The amount sought by CSC included, among others, the claims related to license fees, implementation works, support and maintenance services, contractual penalties and capitalized interests.

On 31 May 2010, PZU Życie requested that the Arbitration Court dismiss some claims as time inappropriate and dismiss the lawsuit in its entirety. PZU Życie also filed a counter suit against CSC, demanding payment of PLN 71,890 thousand as a return of the remuneration collected by CSC or as damages for undue performance of obligations. On 31 August 2010, CSC motioned for dismissal of the entire claim of PZU Życie indicating absence of evidence to consider it.

After the proceedings before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, on 18 December 2012, the court issued a judgment ("Judgement of the Arbitration Court 108/10") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and discontinued the proceedings concerning the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the claim date. Furthermore, the Arbitration Court dismissed the remainder of the principal action and dismissed the PZU Życie mutual claim.

As a result of the final termination of the proceedings concerning the statement of enforceability of the Judgment 108/10, on 9 July 2015, PZU Życie paid PLN 17,392 thousand to CSC. On 20 August 2015, PZU Życie filed a cassation appeal to the Supreme Court against the Judgement of the Arbitration Court 108/10 in its entirety. No significant events had taken place by the date of signing the consolidated financial statements.

53.5 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 100,996 thousand 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 103,014 thousand have been entered into the list of liabilities. As at 31 December 2015 and 31 December 2014, the sureties amount to PLN 102,164 thousand and their reduction is due to the expiration of a part 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. The decision is not final. When the approval of the agreement is legally binding, PZU will receive 21% of the claim in the form of cash payments, in accordance with the schedule agreed upon in the agreement proposals, and in a non-cash form, involving a conversion of 0.491927% of the debt for an issue of new shares.

53.6 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999, PZU granted a mortgage to Metro-Projekt Sp. z o.o. ("Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

Metro-Projekt did not repay its loan and in November 2002 it was declared bankrupt.

The proceedings resulting from the Receiver of Universal SA filing for a separation of the property located at Al. Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt began in 2004.

As a result of a settlement concluded in 2013, in exchange for resigning from claims for the insolvency estate of Universal, the insolvency estate of Metro-Projekt was to be charged with an additional amount of PLN 5,722 thousand to be transferred to the former.

After several unsuccessful efforts to sell Metro-Projekt, another announcement of the Receiver concerning the sale of the enterprise was published on 25 August 2014. The starting price for was set at PLN 80.000 thousand. The only bid in the amount of PLN 80.000 thousand was opened on 21 October 2014.

The Receiver sold the enterprise for PLN 80.000 thousand on 18 December 2014.

As at 31 December 2014, the carrying amount of the receivables from Metro-Projekt was PLN 109,478 thousand. On 28 April 2015, the claim of PZU in the amount PLN 109,478 thousand was fully satisfied with the funds from sale of the business of the company and other means included in the insolvency estate.

54. Related party transactions

54.1 Remuneration of Members of the Management and Supervisory Board, high 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 2015 and 2014 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.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

54.1.1. 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:

Remunerations and other short-term employee benefits paid by PZU	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses and special rewards:		including bonuses and special rewards:
Management Board, including:	**8,124**	**2,862**	**8,226**	**2,812**
Andrzej Klesyk	2,970	1,170	2,714	914
Przemysław Dąbrowski	1,112	371	1,054	313
Dariusz Krzewina	1,281	507	1,314	534
Tomasz Tarkowski	995	332	891	228
Ryszard Trepczyński 1)	1,194 [2)]	482	1,165	424
Rafał Grodzicki 3)	312	-	-	-
Witold Jaworski 4)	260	-	-	-
Barbara Smalska 5)	-	-	1,088	399
High level management (Directors of PZU Group), including:	**3,799**	**1,530**	**3,717**	**1,193**
Rafał Grodzicki	624	312	936	312
Przemysław Henschke	936	312	936	312
Sławomir Niemierka	963	300	860	199
Tobiasz Bury	1,276	606	985	370 [6)]
Supervisory Board, including:	**1,224**	**-**	**1,221**	**-**
Zbigniew Ćwiąkalski	180	-	168	-
Paweł Kaczmarek	84	-	-	-
Dariusz Filar	132	-	120	-
Aleksandra Magaczewska	156	-	97	-
Tomasz Zganiacz	72	-	144	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Kacprzyk	120	-	64	-
Jakub Karnowski	120	-	64	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-
Waldemar Maj	-	-	90	-
Dariusz Daniluk	-	-	57	-
Włodzimierz Kiciński	-	-	57	-

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Remunerations and other short-terms employee benefits paid by other PZU Group entities	1 January – 31 December 2015		1 January – 31 December 2014	
		including bonuses:		including bonuses:
Management Board, including:	**3,310**	**1,279**	**2,942**	**996**
Przemysław Dąbrowski	799	400	599	200
Dariusz Krzewina	690	273	553	133
Tomasz Tarkowski	536	179	536	179
Ryszard Trepczyński 1)	643 2)	259	658	259
Rafał Grodzicki 3)	504	168	-	-
Witold Jaworski 4)	138	-	-	-
Barbara Smalska 5)	-	-	596	225
High level management (Directors of PZU Group), including:	**1,546**	**492**	**1,844**	**478**
Rafał Grodzicki 3)	-	-	455	119
Przemysław Henschke	504	168	455	119
Sławomir Niemierka	464	107	427	70
Tobiasz Bury	578	217	507	170 6)

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries	1 January – 31 December 2015	1 January – 31 December 2014
Management Board, including:	**1,224**	**1,307**
Andrzej Klesyk	298	282
Przemysław Dąbrowski	191	186
Dariusz Krzewina	209	217
Tomasz Tarkowski	178	191
Ryszard Trepczyński 1)	179	226
Rafał Grodzicki 3)	129	-
Witold Jaworski 4)	40	-
Barbara Smalska 5)	-	205
High level management (Directors of PZU Group), including:	**600**	**908**
Rafał Grodzicki 3)	44	170
Przemysław Henschke	167	203
Sławomir Niemierka	176	358
Tobiasz Bury	213	177
Supervisory Board, including:	**11**	-
Zbigniew Ćwiąkalski	10	-
Jakub Karnowski	1	-

1) Ryszard Trepczyński was not appointed as a member of the PZU Management Board in the new term whcih started on 1 July 2015.
2) The specified amounts include compensation resulting from prohibition clause PLN 185 thousand (PZU) and PLN 100 thousand (PZU Życie), as well as remuneration for the notice period.
3) Rafał Grodzicki was dismissed from the position of a Director of PZU Group, effective as of 30 June 2015, and appointed as a member of the PZU Management Board in the new term which started on 1 July 2015.
4) Witold Jaworski was appointed as a member of the PZU Management Board on 1 September 2015.
5) On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014. In 2015, she received remuneration for the notice period and compensation resulting from prohibition clause in the amount of PLN 974 thousand from PZU and PLN 525 thousand from PZU Życie, as well as PLN 71 thousand in non-cash benefits.
6) Amount representing the bonus for 2013 granted during the performance of other functions in PZU and PZU Życie.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

54.1.2. 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 2015	1 January – 31 December 2014
Members of the Management Boards	21,586	18,786
Members of the Supervisory Boards	875	844

54.2 Other related party transactions

Balances and turnovers of transactions between PZU Group and related parties	As from 1 January till 31 December 2015 and at 31 December 2015		As from 1 January till 31 December 2014 and at 31 December 2014	
	Key managers of main units [1]	Other related parties [2]	Key managers of main units [1]	Other related parties [2]
Gross written premium				
in property and personal insurance	-	3,188	-	860
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	3	-	-
Costs	-	11	-	18
Including impairment losses on receivables recognized in current period	-	-	-	
Receivables		50		40
gross value	-	50	-	40
impairment losses	-	-	-	-
net value	-	50	-	40
Liabilities	-	4	-	11
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

[1] High level management, data as per statements..
[2] Non-consolidated companies in liquidation as well as associates and joint ventures measured with the equity metod.

54.3 Presentation of transactions with entities related to the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing the Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by 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 insurance liabilities to related parties are short-term.

PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to being under control, joint control or significant influence of the same government, as referred to in point 25 of IAS 24. However, 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 transactions with subsidiaries, joint-ventures and associates of the State Treasury understood only as commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.

The table below presents the written premium and volumes from investment contracts resulting from transactions with subsidiaries, joint-ventures and associates with the State Treasury.

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

Subsidiaries, joint-ventures and associates with the State Treasury	1 January – 31 December 2015	1 January – 31 December 2014
Gross written premium - non-life insurance	49,524	69,347
- including written premium as a result of transactions with Bank Powszechna Kasa Oszczędności BP SA	12,617	14,066
Gross written premium - life insurance	26,503	30,749
- including written premium and volumes of investment contracts as a result of transactions with Bank Powszechna Kasa Oszczędności BP SA	26,503	30,749
Total	**76,027**	**100,096**

54.4 Transactions with largest counterparties whose shares are held by the State Treasury

Gross written premiums[1)] from 10 largest counterparties of PZU Group that are subsidiaries of the State Treasury

Counterparty	1 January - 31 December 2015	Counterparty	1 January - 31 December 2014
Counterparty 1	39,120	Counterparty 1	44,815
Counterparty 2	18,260	Counterparty 2	27,282
Counterparty 3	6,288	Counterparty 4	5,017
Counterparty 4	3,785	Counterparty 5	3,847
Counterparty 5	1,400	Counterparty 3	3,189
Counterparty 6	1,371	Counterparty 6	2,530
Counterparty 7	696	Counterparty 11	1,925
Counterparty 8	646	Counterparty 12	1,521
Counterparty 9	542	Counterparty 13	1,154
Counterparty 10	470	Counterparty 9	1,106

[1)] The item includes gross written premium in non-life insurance, life insurance and volumes of investment contracts.

55. Employment

The table below presents the average number of employees in the PZU Group entities.

Type of services	1 January - 31 December 2015	1 January - 31 December 2014
Management Boards (number of people at the end of the financial year)	81	77
Management	1,448	1,216
Advisors	7	2
Other employees	21,589	15,629
Total	**23,125**	**16,924**

The increase of employment in PZU Group in 2015 results from expanding PZU Group by including newly acquired subsidiary. (Alior Bank – 6,346 employees, other entities – 118).

Consolidated financial statements in accordance with IFRS for the year ended on 31 December 2015 (in PLN thousand)

56. Other information

56.1 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 2015	1 January - 31 December 2014
Audit of the financial statements	1,488	714
Other assurance services	248	248
Other services	27	27
Total	**1,763**	**989**

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.

56.2 Employment restructuring process

On 18 December 2014, the Management Board of PZU adopted a decision to commence restructuring activities related to the implementation of the new IT systems and automation of operating processes.

On 8 April 2015, the Management Boards for PZU and PZU Życie announced their intention to carry out group redundancies, in accordance to the Act from 13 March 2003 on special principles of employment termination for reasons not related to employees (Journal of Laws of 2003, item 844, as amended). "Act on special principles of employment termination").

On 10 April 2015, PZU, PZU Życie and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in previous years.

Employment restructuring was conducted during the planned period (May–June 2015) and finally encompassed 267 people within PZU and PZU Życie, while the employment downsizing applied to 134 employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2014) were offered more favorable conditions of leaving than those provided by law in similar situations (Act on special principles of employment termination). The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

The costs associated with the payment of benefits to the dismissed employees where charged to restructuring expenses, which as at 31 December 2015 amounted to PLN 2,777 thousand (as at 31 December 2014: PLN 9,354 thousand)

56.3 Loans to subsidiaries of PZU

On 25 February 2015, PZU and CM Medica concluded a loan agreement in the amount of PLN 6,500 thousand. The interest rate on the loan was determined on an arm's length basis (6-month WIBOR rate increased by a margin of 150 bps.) The loan became effective on 22 April 2015 and its repayment date is 22 April 2017.

On 23 March 2015, PZU and PZU Zdrowie SA concluded an interest-free loan agreement. The maximum amount of the loan is PLN 200,000 thousand and the latest repayment date - 31 December 2030. On 24 March 2015, the first installment of PLN 90,000 thousand was initiated, and on 25 September 2015 - the second one, in the amount of PLN 40,000 thousand. Due to the participation of both companies in the Tax Capital Group ("TCG"), it is tax neutral.

On 21 May 2015, PZU and AAS Balta concluded a subordinated loan agreement in the amount of EUR 4,100 thousand. The interest rate on the loan was determined on an arm's length basis (3-month EURIBOR rate increased by a margin of 330 bps.). The loan is granted for an indefinite period.

On 29 May 2015, PZU and Lietuvos Draudimas AB concluded a subordinated loan agreement in the amount of EUR 10,000 thousand. The interest rate on the loan was determined on an arm's length basis (3-month EURIBOR rate increased by a margin of 330 bps.). The loan is granted for an indefinite period.

Loans, as transactions between companies within PZU Group, are eliminated in the process of drawing up consolidated financial statements and do not affect its structure nor on the profit or loss of PZU Group.

56.4 Issue of subordinated bonds by Alior Bank

On 28 December 2015 the Supervisory Board of Alior Bank granted consent for opening of Public Subordinated Bond Issuance Program of Alior Bank SA ("Issuance Program") and authorized the Management Board of Alior Bank to incur liabilities through the issuance of unsecured, subordinated bearer bonds with a nominal value of PLN 1,000 per bond in series of up to 800,000. Under the Issuance Program:

- total nominal value of bonds will not exceed PLN 800,000;
- bonds will be issued and offered in series in the period no longer than 12 months from the date of approval of the base prospectus by PFSA;
- the maturity period of bonds will be from 5 to 10 years from the date of issuance of a given bond series;
- the benefits resulting from bonds will be exclusively of monetary nature;
- bonds will be issued pursuant to Article 33 (1) of the Bonds Act;
- bonds will not be in a form of a document;
- terms and conditions for the issuance of each series of the bonds will specify provisions on classifying them as own funds pursuant to the regulations set forth in the Regulation of the European Parliament and Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1);
- the Management Board of Alior Bank will apply for admitting and introduction of bonds into trading on the regulated market operated by WSE as part of Catalyst system in an alternative trading system operated by WSE or by BondSpot S.A. as part of the Catalyst system;

At the same time, the Supervisory Board of Alior Bank authorized the Management Board of Alior Bank to determine final conditions for the issuance of individual bond series, allocation of bonds to investors and adoption of any other activities so as to carry out the Issuance Program.

Due to the opening of the Issuance Program, individual bond series may be issued so as to secure a safe level of total capital ratio (TCR) in connection with the increase, as of 1 January 2016, minimum capital requirements for banks pursuant to the letter of PFSA dated 22 October 2015. It is stated in the letter that banks are to maintain capital ratios at the level of at least 13.25% in terms of TCR, and 10.25% in terms of Tier 1.

56.5 Inspection of the Polish Financial Supervision Authority in PZU Życie

During the period between 12 August and 3 October 2014 the PFSA conducted an inspection at PZU Życie. The inspection covered PZU Życie operations and its financial status in respect of:

- organization and management;
- bookkeeping;
- investment policy;
- technical provisions;
- fulfillment of benefits.

On 29 June 2015, PZU Życie received a post-inspection report. PZU submitted objections to its content on 13 July 2015 and 12 August 2015.

On 12 November 2015, PZU Życie received the recommendation to adjust its insurance operations to the act on insurance activity, the accounting act, the regulation on specific accounting principles for insurance and reinsurance companies, and the regulation on financial instruments.

The recommendations concerned, in particular, disclosure requirements to policyholders and claimants, principles of complaints, completeness of technical plans in terms of setting the technical rate, and the principles (policies) of accounting in terms of the valuation of assets (particularly, the non-standardized derivatives), as well as the methods of valuating financial instruments and determining the value of life insurance provision.

The implementation date for these recommendations was set at 29 February 2016.

PZU Życie notified PFSA about the methods of implementing the recommendations on 29 December 2015, 4 February, 23 February and 29 February 2016.

The issues identified by PFSA do not exert significant effect on the consolidated financial statements.

56.6 Inspection of the Polish Financial Supervision Authority in PZU

During the period between 17 April and 17 June 2015, the Polish Financial Supervision Authority conducted an inspection at PZU in 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. According to the Management Board of PZU, the results of the control will not influence the consolidated financial statement.

56.7 Situation in Ukraine

Both in 2014 and 2015, Ukraine's political and economic situation was unstable. It was associated with the following factors affecting the Ukrainian insurance sector:

- high inflation (48.7% year-to-year) and strong dynamics of local currency depreciation (Ukrainian hryvnia) in relation to the dollar and the euro;
- collapse in domestic demand;
- issues in the banking sector;
- military activities in the east of Ukraine (in Donetsk and Luhansk circuits).

In 2015, the Ukrainian economy withered. In the third quarter of 2015, according to the data of the Central Statistical Office of Ukraine, the decline in GDP amounted to 7.2% year-to-year.

Due to the uncertain political and economic situation in the country, the management boards of PZU Ukraine and PZU Ukraine Life Insurance undertook to reduce the risk:

- in the scope of insurance activity, apart from standard exceptions such as war, terrorism, etc., insurance coverage does not apply to third party operations performed in violation of the law. In addition, it has been decided to temporarily suspend conclusion and renewal of non-life insurance contracts with natural and legal persons, including property that is subject to a lien or mortgage, if the contract is executed in the territory of Donetsk and Luhansk regions. The same applies to forwarding agent and carrier liability insurance, as well as cargo insurance, if the freight lane passes through the territory of the above mentioned regions;
- cash in current accounts and bank deposits were transferred to selected banks operating in Ukraine, which have credible foreign majority shareholders and an appropriate rating.

External influences disturb the functioning of the financial sector and hinder long-term business planning. For customers, reliability of insurance companies has become highly important. Insurance companies with foreign capital are perceived more reliable. This tendency has a positive effect on the sales of the Ukrainian companies of PZU Group. By diversifying their portfolios and sales channels, PZU Ukraine and PZU Ukraine Life became more flexible to market changes and implemented their financial plans for 2015.

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 these consolidated financial statements, the Management

Board of PZU assumes that PZU Ukraine and PZU Ukraine Life Insurance will continue their business activity in accordance with the approved objectives. Nevertheless, the unstable business environment in Ukraine could negatively affect in the future results of PZU Ukraine and PZU Ukraine Life Insurance and financial position in a manner not currently determinable. These consolidated financial statements reflects the current assessment of the Management Board of PZU in this respect.

56.8 Revenue from the exchange of goods and services

In 2015 and 2014, PZU Group did not generate revenue from the exchange of goods and services.

56.9 Events after the financial year

56.9.1. Act on Financial Institutions Tax

On 15 January 2016, the Act on Financial Institutions Tax was published, which has been effective as of 1 February 2016. According to the Act, entities subject to taxation are assets of tax payers that include, among others, banks and insurance companies. In the case of banks, subject to taxation is the excess of assets amounting to over PLN 4,000,000 thousand (less, among other things, the value of treasury instruments), and in the case of insurance companies - over PLN 2,000,000 thousand (for insurance companies, this limit is valid for all tax payers, both direct and indirect subsidiaries and joint ventures of an entity or a group of entities affiliated with one another).

The tax calculated monthly amounts to 0.0366% of the tax base.

PZU Group has estimated the impact of the new tax on financial results, according to which the annual effect on the financial result will amount to some PLN 270—280 million (approximately PLN 250-260 million for the period from February to December 2016). Due to the fact that Alior Bank has not completed such a measurement, the amounts presented above concern only insurance companies of PZU Group.

56.9.2. New Act on Insurance Activity

Information on the entry into force of the new act on insurance activity is specified in Note 9.4.1

56.9.3. Acquisition of the third share installment of Alior Bank

Information about the settlement of acquisition of the third share installment of Alior Bank SA is presented in Note 2.4.6.1.

56.9.4. Acquisition of shares in CM Cordis sp. z o.o.

On 1 February 2016, PZU Zdrowie SA acquired 7,312 shares in CM Cordis sp. z o.o., representing 100% of the share capital of CM Cordis sp. z o.o. sp. k. and 100% of votes at the General Meeting of Shareholders, 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.

56.9.5. Administrative proceedings conducted by the Office of Competition and Consumer Protection

At the beginning of 2015, the President of OCCP instituted investigation proceedings against 17 insurance companies, including PZU Życie, regarding the use of practices that infringe collective consumer interests, alleging that by applying surrender fees in unit-linked insurance products insurance companies charge clients with the costs of the initial conclusion of insurance contracts of that type. In the course of the investigation procedure, PZU Życie suggested abandoning this practice and a change in the sample agreement used in the case of WPI product ("Wielowalutowy Program Inwestycyjny", in English: "Multicurrency Investment Program", code of the terms and conditions: FMIJ40), where the previously applied redemption rate was determined when clients withdrew from insurance agreements (redemption). On 14 October 2015, the President of OCCP issued a decision ordering PZU Życie to abandon the application of the previously used sample agreement, and to change the insurance agreements concluded pursuant to the aforementioned sample agreement by increasing the redemption rate.

PZU Życie complied with the above-mentioned decision, and, in particular, it introduced amendments to the applied sample agreement, as well as amended previously concluded agreements pursuant to the sample agreement. The Management Board of PZU is of the opinion that following the decision of the President of OCCP and its execution, PZU Życie is not bound by any other further unrealized effects of the change in the previously applied practice, and hence it is not aware of any further effects that might exert potential negative impact on the information presented in the consolidated financial statements.

Signatures of members of the Management Board of PZU

Name and surname	Position	
Michał Krupiński	Chairman of the Management Board	.... (signature)
Przemysław Dąbrowski	Board Member	.... (signature)
Roger Hodgkiss	Board Member	.... (signature)
Beata Kozłowska-Chyła	Board Member	.... (signature)
Dariusz Krzewina	Board Member	.... (signature)
Robert Pietryszyn	Board Member	.... (signature)
Paweł Surówka	Board Member	.... (signature)

Person responsible for preparation of the consolidated financial statements:

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

Warsaw, 14 March 2016