Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 9 months ended
30 September 2018

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Introduction

Compliance statement

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

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

Parent company's quarterly standalone financial information

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

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

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

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

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 9 months from 1 January to 30 September 2018.

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

Functional and presentation currency

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

The functional currency of the companies domiciled in Lithuania, Latvia and Sweden is the euro, while for the companies domiciled in Ukraine it is the Ukrainian hryvnia, and for the company domiciled in the United Kingdom it is the British pound.

(in millions of PLN)

FX rates

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

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

Currency	1 January – 30 September 2018	1 January – 30 September 2017	30 September 2018	31 December 2017
Euro	4.2535	4.2566	4.2714	4.1709
British pound	4.8111	n/a	4.8055	4.7001
Ukrainian hryvnia	0.1323	0.1436	0.1301	0.1236

Going concern assumption

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

Discontinued operations

In the 9-month period ended 30 September 2018, the PZU Group companies did not discontinue any significant type of activity.

Business seasonality or cyclicity

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

EMC – EMC Instytut Medyczny SA.

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

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

Pekao – Bank Pekao SA.

Pekao DFE – Pekao Dobrowolny Fundusz Emerytalny.

Pekao OFE – Pekao Otwarty Fundusz Emerytalny.

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

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

PFR – Polski Fundusz Rozwoju SA.

PFS – Pekao Financial Services sp. z o.o.

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji SA.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

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

Other definitions

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

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

WSE – Warsaw Stock Exchange.

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

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

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code (consolidated text: Journal of Laws of 2017, item 1577, as amended).

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 September 2018.

NBP – National Bank of Poland;

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

PAS – Accounting Act and regulations issued thereunder.

IASB – International Accounting Standards Board.

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

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

KNF Office – Office of the Polish Financial Supervision Authority.

BGF Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated text: Journal of Laws of 2017, item 1937, as amended).

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated text: Journal of Laws of 2018, item 999, as amended).

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

ZUS – Social Insurance Institution.

PZU Ordinary Shareholder Meeting – Ordinary Shareholder Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

(in millions of PLN)

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated profit and loss account	m PLN 1 January – 30 September 2018	m PLN 1 January – 30 September 2017	m EUR 1 January – 30 September 2018	m EUR 1 January – 30 September 2017
Gross written premiums	17,258	16,933	4,057	3,978
Net earned premium	16,721	15,849	3,931	3,723
Revenue from commissions and fees	2,526	1,487	594	349
Net investment result	7,994	5,828	1,879	1,369
Net insurance claims and benefits paid	(10,984)	(11,252)	(2,582)	(2,643)
Profit before tax	5,152	3,776	1,211	887
Profit attributable to equity holders of the Parent Company	2,432	2,121	572	498
Profit attributable to holders of non-controlling interests	1,470	778	346	183
Basic and diluted weighted average number of common shares	863,382,147	863,518,494	863,382,147	863,518,494
Basic and diluted earnings per common share (in PLN/EUR)	2.82	2.46	0.66	0.58

Data from the consolidated statement of financial position	m PLN 30 September 2018	m PLN 31 December 2017	m EUR 30 September 2018	m EUR 31 December 2017
Assets	320,117	317,458	74,944	76,113
Share capital	86	86	20	21
Equity attributable to equity holders of the parent	14,169	14,599	3,317	3,500
Non-controlling interest	21,843	22,961	5,114	5,505
Total equity	36,012	37,560	8,431	9,005
Basic and diluted number of common shares	863,248,690	863,522,900	863,248,690	863,522,900
Carrying amount per common share (in PLN/EUR)	16.41	16.91	3.84	4.05

(in millions of PLN)

Data from the consolidated cash flow statement	m PLN 1 January – 30 September 2018	m PLN 1 January – 30 September 2017	m EUR 1 January – 30 September 2018	m EUR 1 January – 30 September 2017
Net cash flows from operating activities	(5,890)	547	(1,385)	128
Net cash flows from investing activities	6,027	4,197	1,417	986
Net cash flows from financing activities	303	1,667	71	392
Total net cash flows	440	6,411	103	1,506

2. Selected standalone financial data of PZU (PAS)

Data from the balance sheet	m PLN 30 September 2018	m PLN 31 December 2017	m EUR 30 September 2018	m EUR 31 December 2017
Assets	44,625	42,365	10,447	10,157
Share capital	86	86	20	21
Total equity	13,211	13,560	3,093	3,251
Basic and diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Carrying amount per common share (in PLN/EUR)	15.30	15.70	3.58	3.76

Data from the revenue account of non-life insurance and the general profit and loss account	m PLN 1 January – 30 September 2018	m PLN 1 January – 30 September 2017	m EUR 1 January – 30 September 2018	m EUR 1 January – 30 September 2017
Gross written premiums	9,572	9,241	2,250	2,171
Technical result of non-life insurance	1,260	849	296	199
Net investment result [1)]	1,965	1,935	462	455
Net profit	2,477	2,174	582	511
Basic and diluted weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Basic and diluted earnings per common share (in PLN/EUR)	2.87	2.52	0.67	0.59

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

(in millions of PLN)

3. Selected standalone financial data of PZU Życie (PAS)

Data from the balance sheet	**m PLN 30 September 2018**	**m PLN 31 December 2017**	**m EUR 30 September 2018**	**m EUR 31 December 2017**
Assets	29,071	28,320	6,806	6,790
Total equity	4,100	4,657	960	1,117

Data from the technical life insurance account and the general profit and loss account	**m PLN 1 January – 30 September 2018**	**m PLN 1 January – 30 September 2017**	**m EUR 1 January – 30 September 2018**	**m EUR 1 January – 30 September 2017**
Gross written premiums	6,197	6,370	1,457	1,496
Technical life insurance result	1,267	1,245	298	292
Net investment result	582	1,026	137	241
Net profit	1,010	964	237	226

4. Summary of consolidated quarterly results

The net financial result of the PZU Group for the period of 9 months ended 30 September 2018 was PLN 3,902 million and was 34.6% higher than the net result in the corresponding period of the previous year. Net profit attributable to the parent company's shareholders was PLN 2,432 million compared to PLN 2,121 million in 2017 (up 14.7%).

The net result rose 35.0% compared to last year, net of non-recurring events[1].

ROE attributable to the parent company (PZU) for the period from 1 January to 30 September 2018 was 22.9%, up 1.8 percentage points from the corresponding period of the previous year.

The following factors also affected PZU Group's activity in the 9 months ended 30 September 2018, as compared to the corresponding period of the previous year:

- the growth in gross written premium in motor insurance (due to the higher average premium coupled with the decline in the number of insurance policies), the conclusion of several high-value contracts and higher sales in international companies (chiefly in motor insurance);
- higher profitability in the corporate insurance segment due to improved profitability in the portfolio of natural catastrophe insurance and insurance for other property claims and motor own damage insurance;
- higher profitability in the mass insurance segment, mainly due to the higher result of the non-motor insurance portfolio connected to the lower level of weather-related claims and the motor own damage portfolio, slightly offset by the decline in the result on motor TPL insurance – as a result of remeasurement of the provision for claims for general damages for pain caused by an accident victim being in a vegetative state;
- increased profitability in group and individually continued insurance as a result of the constantly growing insurance portfolio, improvement in the loss ratio in protection products compared to last year and a change in the mix of individually continued products with a lower standalone expense for provisioning the future disbursement of benefits;
- better performance in the banking segment at Alior Bank in connection with the high sales level of credit products supported by good business climate and a low interest rate environment;
- lower result on listed equities, in particular due to the deteriorated market conditions on the Warsaw Stock Exchange.

The incorporation of Bank Pekao in the PZU Group's structure in June 2017 materially affected the comparability of results year on year. Pekao contributed PLN 2,071 million to the banking segment's operating result in the first 3 quarters of 2018 compared to PLN 918 million in the corresponding period of 2017.

[1] Non-recurring events include the effect of converting long-term policies into yearly renewable term business in type P group insurance, the non-recurring effect of remeasurement of provisions in non-life insurance for claims for general damages due to being in a vegetative state and the level of weather-related claims (storms) higher than the average for the last 3 years in a comparable period.

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)[1)]	1 January – 30 September 2017 (restated)[1)]
Gross written premiums	7.1	5,377	17,258	5,327	16,933
Reinsurers' share in gross written premium		(52)	(388)	5	(302)
Net written premiums		**5,325**	**16,870**	**5,332**	**16,631**
Movement in net provision for unearned premiums		342	(149)	170	(782)
Net earned premium		**5,667**	**16,721**	**5,502**	**15,849**
Revenue from commissions and fees	7.2	853	2,526	788	1,487
Net investment income	7.3	3,026	8,620	2,910	6,192
Net result on realization of financial instruments and investments	7.4	(57)	42	(19)	219
Movement in allowances for expected credit losses and impairment losses on financial instruments	7.5	(432)	(1,270)	(354)	(893)
Net movement in fair value of assets and liabilities measured at fair value	7.6	201	602	264	310
Other operating income	7.7	421	1,221	321	851
Claims, benefits and movement in technical provisions		(3,757)	(11,261)	(4,187)	(11,566)
Reinsurers' share in claims, benefits and movement in technical provisions		118	277	149	314
Net insurance claims and benefits paid	**7.8**	**(3,639)**	**(10,984)**	**(4,038)**	**(11,252)**
Fee and commission expenses	7.9	(197)	(550)	(181)	(370)
Interest expenses	7.10	(516)	(1,508)	(450)	(870)
Acquisition expenses	7.11	(781)	(2,300)	(730)	(2,142)
Administrative expenses	7.11	(1,593)	(4,935)	(1,592)	(3,628)
Other operating expenses	7.12	(947)	(3,033)	(811)	(1,986)
Operating profit		**2,006**	**5,152**	**1,610**	**3,767**
Share of the net financial results of entities measured by the equity method		(1)	-	10	9
Profit before tax		**2,005**	**5,152**	**1,620**	**3,776**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)[1]	1 January – 30 September 2017 (restated) [1]
Income tax	7.14	(461)	(1,250)	(426)	(877)
Net profit, including:		**1,544**	**3,902**	**1,194**	**2,899**
- profit attributable to the equity holders of the Parent Company		1,007	2,432	683	2,121
- profit (loss) attributed to holders of non-controlling interest		537	1,470	511	778
Weighted average basic and diluted number of common shares	7.13	863,265,576	863,382,147	863,522,006	863,518,494
Basic and diluted profit (loss) per common share (in PLN)	7.13	1.17	2.82	0.79	2.46

[1] Information on restatement of data for the period from 1 January to 30 September 2017 is presented in section 4.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)[1)]	1 January – 30 September 2017 (restated) [1)]
Net profit		1,544	3,902	1,194	2,899
Other comprehensive income	7.14	(145)	(185)	124	128
Subject to subsequent transfer to profit or loss		(105)	87	124	127
Debt instruments measured at fair value through other comprehensive income		(49)	85	n/a	n/a
Measurement of financial instruments available for sale		n/a	n/a	75	118
Foreign exchange translation differences		(27)	29	20	(33)
Cash flow hedging		(29)	(27)	29	42
Not to be reclassified to profit or loss in the future		(40)	(272)	-	1
Equity instruments measured at fair value through other comprehensive income		(41)	(275)	n/a	n/a
Reclassification of real property from property, plant and equipment to investment property		1	3	-	1
Total net comprehensive income		**1,399**	**3,717**	**1,318**	**3,027**
- comprehensive income attributable to equity holders of the Parent Company		891	2,215	753	2,164
- comprehensive income attributed to holders of non-controlling interest		508	1,502	565	863

[1)] Information on restatement of data for the period from 1 January to 30 September 2017 is presented in section 4.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	30 September 2018	31 December 2017 (restated) [1]	1 January 2017 (restated) [1]
Goodwill	7.15	3,854	3,830	1,583
Intangible assets	7.16	3,140	3,443	1,463
Other assets	7.17	564	692	866
Deferred acquisition expenses		1,495	1,485	1,407
Reinsurers' share in technical provisions	7.25	1,237	1,250	990
Property, plant and equipment	7.18	3,116	3,287	1,467
Investment property		1,678	2,355	1,738
Entities measured by the equity method		17	20	37
Loan receivables from clients	7.19	177,992	169,457	44,998
Financial derivatives	7.20	2,030	2,351	953
Investment financial assets	7.21	104,977	110,046	59,335
Measured at amortized cost		48,096	n/a	n/a
Measured at fair value through other comprehensive income		38,190	n/a	n/a
Measured at fair value through profit or loss		18,691	n/a	n/a
Held to maturity		n/a	21,237	17,346
Available for sale		n/a	48,519	11,652
Measured at fair value through profit or loss		n/a	20,243	21,001
Loans		n/a	20,047	9,336
Deferred tax assets		2,209	1,590	641
Receivables	7.23	7,898	9,096	5,664
Cash and cash equivalents		8,719	8,239	2,973
Assets held for sale	7.24	1,191	317	1,189
Total assets		**320,117**	**317,458**	**125,304**

Equity and liabilities	Note	30 September 2018	31 December 2017 (restated) [1]	1 January 2017 (restated) [1]
Equity				
Equity attributable to equity holders of the parent		14,169	14,599	12,990
Share capital		86	86	86
Other capital		12,495	11,917	10,869
Retained earnings		1,588	2,596	2,035
Retained earnings		(844)	(299)	100
Net profit		2,432	2,895	1,935
Non-controlling interest		21,843	22,961	4,067
Total equity		**36,012**	**37,560**	**17,057**
Liabilities				
Technical provisions	7.25	45,262	44,558	42,194
Provisions for employee benefits		533	556	128
Other provisions	7.26	573	497	367
Deferred tax liability		527	638	469
Financial liabilities	7.27	226,291	224,550	60,045
Other liabilities	7.28	10,871	9,096	5,011
Liabilities related directly to assets classified as held for sale	7.24	48	3	33
Total liabilities		**284,105**	**279,898**	**108,247**
Total equity and liabilities		**320,117**	**317,458**	**125,304**

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

(in millions of PLN)

4. Interim consolidated statement of changes in equity

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2018	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**2,596**	**-**	**14,599**	**22,961**	**37,560**
Effect of the application of IFRS 9 and other changes	-	-	-	7	-	-	-	(461)	-	(454)	(1,042)	(1,496)
As at 1 January 2018 after the changes in accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,135**	**-**	**14,145**	**21,919**	**36,064**
Equity instruments measured at fair value through other comprehensive income	-	-	-	(258)	-	-	-	-	-	(258)	(17)	(275)
Debt instruments measured at fair value through other comprehensive income	-	-	-	13	-	-	-	-	-	13	72	85
Cash flow hedging	-	-	-	(4)	-	-	-	-	-	(4)	(23)	(27)
Foreign exchange translation differences	-	-	-	-	-	-	29	-	-	29	-	29
Reclassification of property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(246)**	**-**	**-**	**29**	**-**	**-**	**(217)**	**32**	**(185)**
Net profit (loss)	-	-	-	-	-	-	-	-	2,432	2,432	1,470	3,902
Total comprehensive income	**-**	**-**	**-**	**(246)**	**-**	**-**	**29**	**-**	**2,432**	**2,215**	**1,502**	**3,717**
Other changes, including:	**-**	**(11)**	**791**	**(6)**	**14**	**-**	**-**	**(2,979)**	**-**	**(2,191)**	**(1,578)**	**(3,769)**
Distribution of financial result	-	-	806	-	14	-	-	(2,979)	-	(2,159)	(1,659)	(3,818)
Transactions on treasury shares	-	(11)	-	-	-	-	-	-	-	(11)	-	(11)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	81	62
Sale of revalued property and other	-	-	4	(6)	-	-	-	-	-	(2)	-	(2)
As at 30 September 2018	**86**	**(11)**	**12,615**	**(88)**	**19**	**4**	**(44)**	**(844)**	**2,432**	**14,169**	**21,843**	**36,012**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Adjustment to the opening balance	-	-	-	-	-	-	-	(8)	-	(8)	(19)	(27)
Balance as at 1 January 2017 after adjustment	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,035**	**-**	**12,990**	**4,067**	**17,057**
Measurement of financial instruments available for sale	-	-	-	53	-	-	-	-	-	53	64	117
Cash flow hedging	-	-	-	2	-	-	-	-	-	2	9	11
Foreign exchange translation differences	-	-	-	-	-	-	(71)	-	-	(71)	-	(71)
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	1	-	-	-	1	6	7
Reclassification of property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**-**	**(13)**	**79**	**66**
Net profit (loss)	-	-	-	-	-	-	-	-	2,895	2,895	1,290	4,185
Total comprehensive income	**-**	**-**	**-**	**57**	**-**	**1**	**(71)**	**-**	**2,895**	**2,882**	**1,369**	**4,251**
Other changes, including:	**-**	**1**	**1,066**	**(6)**	**-**	**-**	**-**	**(2,334)**	**-**	**(1,273)**	**17,525**	**16,252**
Distribution of financial result	-	-	1,125	-	-	-	-	(2,334)	-	(1,209)	-	(1,209)
Acquisition of shares in Pekao	-	-	-	-	-	-	-	-	-	-	17,711	17,711
Transactions on treasury shares	-	1	-	-	-	-	-	-	-	1	-	1
Changes in the composition of the PZU Group and transactions with holders of non-controlling interests	-	-	(65)	-	-	-	-	-	-	(65)	(186)	(251)
Sale of revalued real estate	-	-	6	(6)	-	-	-	-	-	-	-	-
As at 31 December 2017	**86**	**-**	**11,824**	**157**	**5**	**4**	**(73)**	**(299)**	**2,895**	**14,599**	**22,961**	**37,560**

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

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity (restated) [1]	Share capital	Equity attributable to equity holders of the parent									Non-controlling interest	Total equity
		Other capital						Retained earnings		Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	Foreign exchange translation differences	Retained earnings	Net profit			
As at 1 January 2017	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,043**	**-**	**12,998**	**4,086**	**17,084**
Adjustment to the opening balance	-	-	-	-	-	-	-	(8)	-	(8)	(19)	(27)
Balance as at 1 January 2017 after adjustment	**86**	**(1)**	**10,758**	**106**	**5**	**3**	**(2)**	**2,035**	**-**	**12,990**	**4,067**	**17,057**
Measurement of financial instruments available for sale	-	-	-	66	-	-	-	-	-	66	52	118
Cash flow hedging	-	-	-	9	-	-	-	-	-	9	33	42
Foreign exchange translation differences	-	-	-	-	-	-	(33)	-	-	(33)	-	(33)
Reclassification of property from property, plant and equipment to investment property	-	-	-	1	-	-	-	-	-	1	-	1
Total net other comprehensive income	**-**	**-**	**-**	**76**	**-**	**-**	**(33)**	**-**	**-**	**43**	**85**	**128**
Net profit (loss)	-	-	-	-	-	-	-	-	2,121	2,121	778	2,899
Total comprehensive income	**-**	**-**	**-**	**76**	**-**	**-**	**(33)**	**-**	**2,121**	**2,164**	**863**	**3,027**
Other changes, including:	**-**	**-**	**1,057**	**(4)**	**-**	**-**	**-**	**(2,333)**	**-**	**(1,280)**	**17,540**	**16,260**
Distribution of financial result	-	-	1,125	-	-	-	-	(2,333)	-	(1,208)	-	(1,208)
Acquisition of shares in Pekao	-	-	-	-	-	-	-	-	-	-	17,711	17,711
Transactions with holders of non-controlling interests	-	-	(72)	-	-	-	-	-	-	(72)	(171)	(243)
Sale of revalued real estate	-	-	4	(4)	-	-	-	-	-	-	-	-
As at 30 September 2017	**86**	**(1)**	**11,815**	**178**	**5**	**3**	**(35)**	**(298)**	**2,121**	**13,874**	**22,470**	**36,344**

[1] Information on restatement of data for the period from 1 January to 30 September 2017 is presented in section 4.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 30 September 2018	1 January – 30 September 2017 (restated) [1)]
Profit before tax	5,152	3,776
Adjustments	(11,042)	(3,229)
Movement in loan receivables from clients	(11,380)	(7,785)
Movement in liabilities under deposits	165	6,447
Movement in the valuation of assets measured at fair value	(602)	(334)
Interest income and expenses	(1,716)	(1,269)
Realized gains/losses from investing activities and impairment losses	1,198	663
Net foreign exchange differences	(121)	(540)
Movement in deferred acquisition expenses	(10)	(64)
Amortization of intangible assets and depreciation of property, plant and equipment	815	584
Movement in the reinsurers' share in technical provisions	13	(45)
Movement in technical provisions	704	1,869
Movement in receivables	(253)	(1,685)
Movement in liabilities	(355)	737
Cash flow on investment contracts	(16)	(84)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	(150)	(344)
Income tax paid	(1,363)	(819)
Other adjustments	2,029	(560)
Net cash flows from operating activities	**(5,890)**	**547**
Cash flow from investing activities		
Proceeds	687,775	673,926
- sale of investment property	20	66
- proceeds from investment property	225	227
- sale of intangible assets and property, plant and equipment	33	33
- sale of ownership interests and shares	2,500	2,199
- realization of debt securities	153,258	144,443
- closing of buy-sell-back transactions	343,503	266,032
- closing of term deposits with credit institutions	163,193	173,539
- realization of other investments	23,688	81,107
- interest received	1,260	1,225
- dividends received	61	33
- increase in cash due to purchase of entities and change in the scope of consolidation	4	4,998
- other investment proceeds	30	24

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 30 September 2018	1 January – 30 September 2017 (restated) [1)]
Expenses	(681,748)	(669,729)
- purchase of investment properties	(102)	(48)
- expenditures for the maintenance of investment property	(73)	(132)
- purchase of intangible assets and property, plant and equipment	(429)	(467)
- purchase of ownership interests and shares	(2,464)	(1,145)
- purchase of ownership interests and shares in subsidiaries	(14)	(6,270)
- decrease in cash due to the sale of entities and change in the scope of consolidation	-	(54)
- purchase of debt securities	(140,703)	(143,090)
- opening of buy-sell-back transactions	(346,376)	(264,214)
- purchase of term deposits with credit institutions	(167,208)	(171,053)
- purchase of other investments	(24,357)	(83,248)
- other expenditures for investments	(22)	(8)
Net cash flows from investing activities	**6,027**	**4,197**
Cash flows from financing activities		
Proceeds	157,594	180,006
- proceeds from the issue of shares by subsidiaries (in the part paid up by holders of non-controlling interests)	12	-
- proceeds from loans and borrowings	1,832	1,605
- proceeds on the issue of own debt securities	4,346	3,575
- opening of repurchase transactions	151,404	174,826
Expenses	(157,291)	(178,339)
- dividends paid to equity holders of the parent	(1,659)	-
- repayment of loans and borrowings	(1,892)	(1,823)
- redemption of own debt securities	(2,118)	(1,586)
- closing of repurchase transactions	(151,388)	(174,823)
- interest on loans and borrowings	(92)	(5)
- interest on outstanding debt securities	(142)	(102)
Net cash flows from financing activities	**303**	**1,667**
Total net cash flows	**440**	**6,411**
Cash and cash equivalents at the beginning of the period	8,239	2,973
Movement in cash due to foreign exchange differences	40	(56)
Cash and cash equivalents at the end of the period, including:	8,719	9,328
- restricted cash	51	46

[1)] Information on restatement of data for the period from 1 January to 30 September 2017 is presented in section 4.2.

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

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

(in millions of PLN)

1.2 PZU Group entities and associates

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Consolidated insurance undertakings						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. https://www.pzu.pl/grupa-pzu/spolki/pzu-sa
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	100.00%	100.00%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga, Latvia	30.06.2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated companies – Pekao Group						
10	Bank Pekao SA	Warsaw	07.06.2017	20.03%	20.02%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.03%	20.02%	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.03%	20.02%	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.03%	20.02%	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.03%	20.02%	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.03%	20.02%	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation (formerly Pekao Pioneer Powszechne Towarzystwo Emerytalne SA) [1]	Warsaw	07.06.2017	20.03%	20.02%	Management of pension funds. https://www.pekaopte.pl/
17	Pekao TFI SA (formerly Pioneer Pekao TFI SA)	Warsaw	07.06.2017 11.12.2017 [2]	20.03%	20.02%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
18	Centrum Kart SA	Warsaw	07.06.2017	20.03%	20.02%	Auxiliary financial services. http://www.centrumkart.pl/

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.82% [3)]	20.02%	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	07.06.2017	20.03%	20.02%	Call-center services. http://www.cbb.pl/
21	Pekao Property SA	Warsaw	07.06.2017	20.03%	20.02%	Development activity.
22	FPB – Media sp. z o.o.	Warsaw	07.06.2017	20.03%	20.02%	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.03%	20.02%	Business consulting
24	Pekao Investment Management SA (formerly Pioneer Pekao Investment Management SA)	Warsaw	07.06.2017 11.12.2017 [2)]	20.03%	20.02%	Asset management. https://www.pekaotfi.pl/tfi/welcome
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	07.06.2017 11.12.2017 [4)]	20.03%	20.02%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	18.12.2015	31.94%	32.23%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.94%	32.23%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation	Krakow	18.12.2015	31.94%	32.23%	Trading in receivables.
29	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.94%	32.23%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	18.12.2015	31.94%	32.23%	IT services.
31	Alior TFI SA (formerly Money Makers TFI SA) [5)]	Warsaw	18.12.2015	31.94%	19.39%	Asset management services and management of Alior SFIO subfunds. https://www.aliortfi.com/
32	New Commerce Services sp. z o.o.	Warsaw	18.12.2015	31.94%	32.23%	The company does not conduct any activity
33	Absource sp. z o.o.	Krakow	04.05.2016	31.94%	32.23%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.94%	32.23%	Brokerage activity.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Consolidated companies – PZU Zdrowie Group						
35	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
36	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
37	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
38	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
39	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. 6)	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. http://www.elvita.pl/
40	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
41	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
42	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
43	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
44	Revimed sp. z o.o.	Gdańsk	31.05.2017	100.00%	100.00%	Medical services. http://www.revimed.pl/
45	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	n/a	Medical services. http://www.cmlukasza.pl/
Consolidated companies – other companies						
46	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. https://www.pzu.pl/pl/grupa-pzu/spolki/pte-pzu
47	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
48	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Creation, representing and management of mutual funds. https://www.pzu.pl/pl/grupa-pzu/spolki/tfi-pzu
49	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-pomoc
50	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-finance

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Consolidated companies – other companies – continued						
51	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
52	Tower Inwestycje Sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Development activity, operation and lease of properties. https://www.pzu.pl/pl/grupa-pzu/spolki/tower-inwestycje
53	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
54	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
55	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
56	PZU Corporate Member Limited	London (United Kingdom)	28.09.2017	100.00%	100.00%	Investment activity.
57	Ardea Alba SA in liquidation (formerly PZU Asset Management SA)	Warsaw	12.07.2001	100.00%	100.00%	No business conducted.
58	PZU LAB SA (formerly Omicron SA)	Warsaw	13.09.2011	100.00%	100.00%	Consulting and training services, development of technology innovation to support technical and procedural security processes and risk management. https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-lab
59	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
60	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
61	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
62	Battersby Investments SA	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
63	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
64	Armatura Kraków SA	Krakow	07.10.1999	100.00%	100.00%	Production and sale of radiators and sanitary fittings and administration and management of the group. http://www.grupa-armatura.pl/
65	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
66	Aquaform Badprodukte GmbH	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
67	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
68	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
69	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Consolidated companies – mutual funds						
70	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
71	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
72	PZU FIZ Sektora Nieruchomości [7)]	Warsaw	01.07.2008	n/a	n/a	as above
73	PZU FIZ Sektora Nieruchomości 2 [7)]	Warsaw	21.11.2011	n/a	n/a	as above
74	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
75	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
76	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
77	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
78	PZU FIZ Forte	Warsaw	01.07.2016	n/a	n/a	as above
79	PZU Innowacyjnych Technologii (formerly: PZU Telekomunikacja Media Technologia)	Warsaw	07.09.2016	n/a	n/a	as above
80	PZU Dłużny Aktywny	Warsaw	26.10.2016	n/a	n/a	as above
81	PZU FIZ Aktywów Niepublicznych Witelo Fund	Warsaw	30.11.2016	n/a	n/a	as above
82	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
83	PZU Akcji Spółek Dywidendowych	Warsaw	31.12.2017	n/a	n/a	as above
84	PZU FIZ Akcji Focus	Warsaw	01.04.2018	n/a	n/a	as above
85	inPZU Inwestycji Ostrożnych (formerly: PZU iPuls Gotówka)	Warsaw	10.04.2018	n/a	n/a	as above
86	inPZU Obligacje Polskie (formerly: PZU iPuls Obligacje Polskie)	Warsaw	10.04.2018	n/a	n/a	as above
87	inPZU Akcje Polskie (formerly: PZU iPuls Akcje Polskie)	Warsaw	10.05.2018	n/a	n/a	as above
88	inPZU Akcji Rynków Rozwiniętych (formerly: PZU iPuls Akcji Rynków Rozwiniętych)	Warsaw	10.05.2018	n/a	n/a	as above
89	inPZU Obligacji Rynków Rozwiniętych (formerly: PZU iPuls Obligacji Rynków Rozwiniętych)	Warsaw	10.05.2018	n/a	n/a	as above
90	inPZU Obligacji Rynków Wschodzących (formerly: PZU iPuls Obligacji Rynków Wschodzących)	Warsaw	10.05.2018	n/a	n/a	as above

(in millions of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / significant influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				30 September 2018	31 December 2017	
Associates						
91	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
92	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [8)]	28.31% [8)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
93	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [9)]	8.01% [9)]	Consulting and business activity – no business conducted.

[1)] On 1 June 2018, the shareholder meeting adopted a resolution to dissolve the company and open its liquidation process.

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

[3)] As a result of the transaction described in section 1.4.4 as of 4 June 2018 PZU directly holds a 33.5% equity stake in PFS while Pekao's stake fell to 66.5%.

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

[5)] Direct subsidiary of Alior Bank, in which Alior Bank holds a 100% stake (as at 31 December 2017: 60.16%). As a consequence, the PZU Management Board considers the PZU Group to be in control of the company.

[6)] On 6 September 2018 Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. merged with NZOZ Trzebinia. This transaction did not affect the condensed interim consolidated financial statements.

[7)] As at 30 September 2018, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiaries established under commercial law as special-purpose vehicles whose number in the respective funds was: 18 and 18 (as at 31 December 2017: 15 and 20).

[8)] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 30 September 2018 and as at 31 December 2017 it was 25.44%. The difference between the percentage of votes and the stake in the share capital results from the fact that holders of non-controlling interests hold certain shares preferred as to the voting rights.

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

(in millions of PLN)

As at 30 September 2018, besides the companies listed in the table, the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

1.3 Non-controlling interest

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

Name of the entity	30 September 2018	31 December 2017
Pekao [1]	79.97%	79.98%
Alior Bank [2]	68.06%	67.77%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
AAS Balta	0.01%	0.01%
NZOZ Trzebinia	n/a	0.25%

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

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

Carrying amount of non-controlling interests	30 September 2018	31 December 2017 (restated) [1]
Pekao Group	17,612	18,636
Alior Bank Group	4,225	4,319
Other	6	6
Total	**21,843**	**22,961**

1) Information on restatement of data as at 31 December 2017 is presented in section 4.2.

(in millions of PLN)

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

Assets	Pekao Group		Alior Bank Group	
	30 September 2018	31 December 2017 (restated) [1]	30 September 2018	31 December 2017 (restated) [1]
Goodwill	692	692	-	-
Intangible assets	1,789	2,032	638	662
Other assets	60	95	36	36
Property, plant and equipment	1,622	1,731	452	476
Investment property	13	24	-	-
Loan receivables from clients	125,068	118,660	52,924	50,797
Financial derivatives	1,284	1,608	604	454
Investment financial assets	44,106	52,555	12,784	14,020
Measured at amortized cost	15,029	n/a	5,927	n/a
Measured at fair value through other comprehensive income	28,449	n/a	6,754	n/a
Measured at fair value through profit or loss	628	n/a	103	n/a
Held to maturity	n/a	3,500	n/a	1,339
Available for sale	n/a	33,593	n/a	12,259
Measured at fair value through profit or loss	n/a	1,731	n/a	87
Loans	n/a	13,731	n/a	335
Deferred tax assets	1,209	915	962	641
Receivables	2,374	2,017	542	785
Cash and cash equivalents	5,128	5,282	2,147	1,338
Assets held for sale	33	64	-	-
Total assets	**183,378**	**185,675**	**71,089**	**69,209**

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 September 2018	31 December 2017 (restated) [1]	30 September 2018	31 December 2017 (restated) [1]
Equity				
Equity attributable to equity holders of the parent	22,023	23,304	6,208	6,374
Share capital	262	262	1,305	1,293
Other capital	20,653	20,562	5,607	5,019
Retained earnings	1,108	2,480	(704)	62
Non-controlling interest	12	-	-	1
Total equity	**22,035**	**23,304**	**6,208**	**6,375**
Liabilities				
Provisions for employee benefits	410	425	34	43
Other provisions	256	305	189	77
Deferred tax liability	33	38	1	-
Financial liabilities	156,865	157,903	63,189	60,905
Other liabilities	3,779	3,700	1,468	1,809
Total liabilities	**161,343**	**162,371**	**64,881**	**62,834**
Total equity and liabilities	**183,378**	**185,675**	**71,089**	**69,209**

[1] Information on restatement of data as at 31 December 2017 is presented in section 4.2.

(in millions of PLN)

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

Consolidated profit and loss account for the period from 1 January to 30 September 2018	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Gross written premiums	17,258	-	-	6	17,264
Reinsurers' share in gross written premium	(388)	-	-	-	(388)
Net written premiums	**16,870**	**-**	**-**	**6**	**16,876**
Movement in net provision for unearned premiums	(149)	-	-	-	(149)
Net earned premium	**16,721**	**-**	**-**	**6**	**16,727**
Revenue from commissions and fees	2,526	(1,759)	(619)	25	173
Net investment income	8,620	(4,868)	(2,739)	8	1,021
Net result on realization of financial instruments and investments	42	(92)	(77)	-	(127)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,270)	429	783	-	(58)
Net movement in fair value of assets and liabilities measured at fair value	602	(34)	(440)	4	132
Other operating income	1,221	(333)	(306)	20	602
Claims, benefits and movement in technical provisions	(11,261)	-	-	-	(11,261)
Reinsurers' share in claims, benefits and movement in technical provisions	277	-	-	-	277
Net insurance claims and benefits paid	**(10,984)**	**-**	**-**	**-**	**(10,984)**
Fee and commission expenses	(550)	281	267	-	(2)
Interest expenses	(1,508)	831	561	(12)	(128)
Acquisition expenses	(2,300)	-	-	(37)	(2,337)
Administrative expenses	(4,935)	2,557	1,186	(9)	(1,201)
Other operating expenses	(3,033)	1,148	606	(5)	(1,284)
Operating profit (loss)	**5,152**	**(1,840)**	**(778)**	**-**	**2,534**
Share of the net financial results of entities measured by the equity method	-	-	-	-	-
Profit (loss) before tax	**5,152**	**(1,840)**	**(778)**	**-**	**2,534**
Income tax	(1,250)	480	217	-	(553)
Net profit (loss)	**3,902**	**(1,360)**	**(561)**	**-**	**1,981**

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 September 2017 [1] (restated)	**PZU Group**	**Elimination of Pekao's data**	**Elimination of Alior Bank's data**	**Elimination of consolidation adjustments**	**PZU Group without Pekao and Alior Bank**
Gross written premiums	16,933	-	-	-	16,933
Reinsurers' share in gross written premium	(302)	-	-	-	(302)
Net written premiums	**16,631**	**-**	**-**	**-**	**16,631**
Movement in net provision for unearned premiums	(782)	-	-	-	(782)
Net earned premium	**15,849**	**-**	**-**	**-**	**15,849**
Revenue from commissions and fees	1,487	(722)	(610)	10	165
Net investment income	6,192	(2,054)	(3,065)	9	1,082
Net result on realization of financial instruments and investments	219	(27)	(1)	-	191
Movement in allowances for expected credit losses and impairment losses on financial instruments	(893)	178	652	-	(63)
Net movement in fair value of assets and liabilities measured at fair value	310	(8)	182	-	484
Other operating income	851	(92)	(126)	-	633
Claims, benefits and movement in technical provisions	(11,566)	-	-	-	(11,566)
Reinsurers' share in claims, benefits and movement in technical provisions	314	-	-	-	314
Net insurance claims and benefits paid	**(11,252)**	**-**	**-**	**-**	**(11,252)**
Fee and commission expenses	(370)	104	250	-	(16)
Interest expenses	(870)	341	459	(9)	(79)
Acquisition expenses	(2,142)	-	-	(10)	(2,152)
Administrative expenses	(3,628)	1,067	1,379	(8)	(1,190)
Other operating expenses	(1,986)	384	352	8	(1,242)
Operating profit (loss)	**3,767**	**(829)**	**(528)**	**-**	**2,410**
Share of the net financial results of entities measured by the equity method	9	(14)	-	-	(5)
Profit (loss) before tax	**3,776**	**(843)**	**(528)**	**-**	**2,405**
Income tax	(877)	201	150	-	(526)
Net profit (loss)	**2,899**	**(642)**	**(378)**	**-**	**1,879**

[1] Information on restatement of data for the period from 1 January to 30 September 2017 is presented in section 4.2.

Statement of comprehensive income	**Pekao Group**		**Alior Bank Group**	
	1 January – 30 September 2018	**1 June - 30 September 2017** (restated) [1]	**1 January – 30 September 2018**	**1 January – 30 September 2017** (restated) [1]
Net profit	1,360	642	561	378
Other comprehensive income	21	41	22	75
Debt instruments measured at fair value through other comprehensive income	82	n/a	9	n/a
Equity instruments measured at fair value through other comprehensive income	(21)	n/a	-	n/a
Measurement of financial instruments available for sale	n/a	8	n/a	65
Net cash flow hedges	(40)	33	13	10
Foreign exchange differences	-	-	-	-
Total net comprehensive income	**1,381**	**683**	**583**	**453**

[1] Information on restatement of comparative data is presented in section 4.2.

(in millions of PLN)

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 September 2018	1 June - 30 September 2017	1 January – 30 September 2018	1 January – 30 September 2017
Net cash flows from operating activities	(8,064)	(2,485)	331	(556)
Net cash flows from investing activities	7,984	3,053	333	1,309
Net cash flows from financing activities	(99)	684	125	131
Total net cash flows	**(179)**	**1,252**	**789**	**884**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 September 2018	1 June - 30 September 2017	1 January – 30 September 2018	1 January – 30 September 2017
Date of ratifying the dividend	21 June 2018	19 April 2017	-	-
Record date	6 July 2018	21 June 2017	-	-
Dividend payout date	20 July 2018	6 July 2017	-	-
Dividend per share (PLN)	7.90	8.68	-	-
Dividend due to the PZU Group	415	456	-	-
Dividend due to non-controlling shareholders	1,659	1,822	-	-

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

1.4.1. Acquisition of shares in Pekao

On 8 December 2016 PZU, acting in a consortium with PFR signed the Pekao share purchase agreement (“SPA”) with UniCredit S.p.A. („Seller”, „UniCredit”).

On the closing date, i.e. on 7 June 2017, PZU directly acquired a stake in Pekao representing approximately 20% of the total number of votes and at the same time PFR directly acquired a stake in Pekao representing approximately 12.8% of the total number of votes.

As a result of this transaction PZU recognized that it acquired control over Pekao on 7 June 2017.

The price agreed by the Parties is PLN 123 per share, which entailed the total price of PLN 10,589 million for the whole stake to be acquired by PZU and PFR, of which the price for the stake to be acquired by PZU was PLN 6,457 million. The price also included payment for the acquired right to the dividend adopted by the Pekao Ordinary Shareholder Meeting held on 19 April 2017 in the amount of PLN 8.68 per share, i.e. PLN 456 million in total. The SPA does not contemplate the implementation of an adjustment to the purchase price.

Final settlement of the Pekao acquisition

The settlement for the acquisition of the stake in Pekao on the date of obtaining control was made on the basis of the data prepared on 31 May 2017. No material differences in accounting data transpired between 31 May and 7 June 2017.

The condensed interim consolidated financial statements contain the final fair value of the assets and liabilities acquired (in particular, of the loan portfolio). In the process of calculating goodwill:

- the goodwill carried in Pekao's financial statements was written down;
- intangible assets not carried thus far in Pekao's financial statements were recognized;
- the assets and liabilities in Pekao's financial statements were measured at fair value – the loan portfolio, the property portfolio (owner-occupied property, investment property and property for sale), financial assets held to maturity (measured by Pekao at amortized cost) and available for sale (measured by Pekao at historical cost);
- no contingent liabilities requiring recognition were identified;
- no potential indemnification assets requiring recognition were identified.

(in millions of PLN)

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

Assets	Carrying amount	Adjustment to fair value (preliminary settlement)	Adjustment – final settlement	Fair value	Notes
Goodwill	56	(56)	-	-	The goodwill recognized in Pekao's balance sheet was eliminated and it was recognized as part of the goodwill coming from the acquisition of shares in Pekao.
Intangible assets	544	1,450	-	1,994	New assets were identified: • trade mark – PLN 340 million; • core deposit intangibles (CDI) – PLN 1,000 million; • relations with clients holding a PEX cash loan – PLN 110 million.
Other assets	192	-	-	192	
Property, plant and equipment	1,403	253	51	1,707	The property measured by Pekao at historical cost minus accumulated depreciation and impairment losses was measured at fair value.
Investment property	25	-	2	27	
Entities measured by the equity method	154	400	-	554	The stakes in associates (PIM and Xelion), which Pekao measured using the equity method, were measured at fair value.
Financial assets	157,634	(1,199)	-	156,435	
Held to maturity	4,507	22	-	4,529	The assets measured by Pekao at amortized cost wer measured at fair value.
Available for sale	22,168	151	-	22,319	The equity instruments presented by Pekao at historical cost were measured at fair value and the measurement of some assets was done in a consistent manner in accordance with the models in operation in the PZU Group.
Measured at fair value through profit or loss	2,886	-	-	2,886	
Hedge derivatives	325	-	-	325	
Loans	127,748	(1,372)	-	126,376	The loan portfolio was measured at fair value.
Deferred tax assets	867	(67)	(10)	790	The deferred tax on the adjustments made to fair value was assessed.
Receivables	2,542	(16)	-	2,526	Receivables were measured at fair value.
Cash and cash equivalents	4,981	-	-	4,981	
Assets held for sale	48	(2)	-	46	Property held for sale was measured at fair value.
Total assets	**168,446**	**763**	**43**	**169,252**	

(in millions of PLN)

Liabilities	Carrying amount	Adjustment to fair value (preliminary settlement)	Adjustment – final settlement	Fair value	Notes
Provisions for employee benefits	381	40	-	421	The provision for employee holidays was measured at fair value.
Other provisions	249	46	-	295	A fair value measurement of provisions was made.
Deferred tax liability	5	-	-	5	
Financial liabilities	141,297	43	-	141,340	Liabilities measured at amortized cost were measured at fair value.
Other liabilities	4,990	66	-	5,056	
Total liabilities	**146,922**	**195**	**-**	**147,117**	

Net assets	Carrying amount	Adjustment to fair value (preliminary settlement)	Adjustment – final settlement	Fair value	Notes
Net assets attributable to the holders of the parent company	21,509	568	43	22,120	Impact exerted by the foregoing revaluations on the net asset value attributable to the holders of the parent company.
Non-controlling interest	15	-	-	15	
Total net assets	**21,524**	**568**	**43**	**22,135**	

(in millions of PLN)

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

Goodwill calculation	Preliminary settlement	Adjustment – final settlement	Final settlement
Consideration transferred	6,001	-	6,001
Cash transferred	6,457	-	6,457
Adjustment by an amount forming the price for the right to receive the dividend	(456)	-	(456)
Value of non-controlling interests (80.00% of the fair value of Pekao's net assets)	17,662	34	17,696
Fair value of the Pekao's identifiable net assets	(22,077)	(43)	(22,120)
Goodwill	**1,586**	**(9)**	**1,577**

Goodwill will not reduce taxable income.

1.4.2. Acquisition of Centrum Medyczne św. Łukasza sp. z o.o.

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

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

1.4.3. Changes to the consolidated mutual funds

Since control was gained over the PZU FIZ Akcji Focus fund, it is consolidated as of 1 April 2018.

In addition, the following newly-created funds, namely inPZU Inwestycji Ostrożnych, inPZU Obligacje Polskie are consolidated (as of 10 April 2018) while the following funds, namely inPZU Akcje Polskie, inPZU Akcji Rynków Rozwiniętych, inPZU Obligacji Rynków Rozwiniętych, inPZU Obligacji Rynków Wschodzących are consolidated (as of 10 May 2018).

1.4.4. Transactions under joint control

On 24 April 2018 PTE PZU received the KNF's decisions consenting to the acquisition of management of Pekao OFE and Pekao DFE. PZU PTE and Pekao PTE entered into a business transfer agreement on 18 May 2018 encompassing i.a. the operations of Pekao OFE and Pekao DFE, involving the management of Pekao OFE and Pekao DFE. The business was acquired effectively on 19 May 2018. According to KNF's decision the date for commencing the winding up of Pekao OFE is 1 August 2018, while this process will end and the assets of Pekao OFE will be merged with the assets of OFE PZU "Złota Jesień" on 12 October 2018. The winding up of DFE Pekao has been in progress since 19 May 2018 is slated to be completed on 28 September 2018.

On 4 June 2018 the National Court Register registered PFS's share capital increase in connection with the spin off (organizational, functional and financial) and the transfer of the branch of the PZU CO transfer agent (forming an organization part of a business) to PFS within the meaning of Article 530 § 2 of the Commercial Company Code. The transaction was executed on the basis of the agreement concluded on 16 March 2018 by and between PZU, Pekao, PFS and PZU CO and the spin off plan executed on 27 February 2018 by and between PZU CO (company being spun off) and PFS (acquiring company). PZU CO's net asset value transferred to PFS on the date of the spin off was PLN 7 million. From the spin off date the transfer agent services rendered thus far by PZU CO are rendered by PFS.

On 6 September 2018 Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. merged with NZOZ Trzebinia.

The transactions did not affect the condensed interim consolidated financial statements.

(in millions of PLN)

2. Shareholder structure

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

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage held in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Nationale-Nederlanden Otwarty Fundusz Emerytalny and Nationale Nederlanden Dobrowolny Fundusz Emerytalny	43,825,000	5.0751%
3	Other shareholders	524,480,700	60.7374%
Total		**863,523,000**	**100.00%**

[1)] According to the Current Report No. 21/2018 on the list of shareholders holding at least 5% of the number of votes at the PZU Ordinary Shareholder Meeting that took place on 28 June 2018.

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

As a result of a transaction to buy PZU shares settled on 6 June 2018, Nationale-Nederlanden Otwarty Fundusz Emerytalny oraz Nationale Nederlanden Dobrowolny Fundusz Emerytalny increased their shareholding in PZU to 5.03% of PZU's share capital, constituting 5.03% of the total number of votes at PZU's Shareholder Meeting.

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

As at the date of conveying this periodic report PZU Management Board Member Tomasz Kulik held 2,847 PZU shares. Neither as at the date of conveying this periodic report nor as at the date of conveying the annual report for 2017 (i.e. 15 March 2018) did any of the other members of the Management Board, Supervisory Board or the Directors of the Group hold any PZU shares or rights to them.

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

3.1 Composition of the parent company's Management Board

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

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

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

3.2 Composition of the parent company's Supervisory Board

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

- Katarzyna Lewandowska – Chairwoman of the Supervisory Board;
- Aneta Fałek – Deputy Chairwoman of the Supervisory Board;

- Alojzy Nowak – Supervisory Board Secretary;
- Bogusław Banaszak – Supervisory Board Member;
- Marcin Chludziński – Supervisory Board Member;
- Paweł Górecki – Supervisory Board Member;
- Agata Górnicka – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

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

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

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

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

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

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

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

3.3 PZU Group Directors

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

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

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

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

4. Key accounting policies, key estimates and judgments

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

(in millions of PLN)

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

4.1.1. Amendments to the applied IFRS

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

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

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

(in millions of PLN)

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

(in millions of PLN)

Standard/interpretation	Date of entry into effect for annual periods beginning on	Regulation approving the standard or interpretation	Notes
Amendment to IAS 40 – Transfers of Investment Property	1 January 2018	400/2018	The amendment clarifies when the entity should transfer properties under construction to or from the investment property category in the event of change of the nature of the use of such property in situations other than specifically listed in IAS 40. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 2014-2016	1 January 2018	182/2018	The amendments pertain to: 1. IFRS 1 – waiver of exemptions for first time adopters as regards certain disclosures; 2. IAS 28 – as regards the election by specified entities to measure at fair value through profit or loss interests in associates and joint ventures in accordance with IFRS 9. The amendments did not affect the PZU Group's consolidated financial statements.
IFRIC interpretation 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018	519/2018	The interpretation clarifies that the exchange rate should be applied in recognizing a transaction denominated in a foreign currency in accordance with IAS 21 if the client makes a non-refundable payment of an advance consideration for delivery of goods or services. The interpretation had no effect on the PZU Group's consolidated financial statements.

4.1.2. IFRS 9 – Financial Instruments

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

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

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

(in millions of PLN)

Effect of the application of the new standard

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Carrying amount under IFRS 9 as at 1 January 2018
Loan receivables from clients	Financial assets at amortized cost	167,497	(83)	(1,524)	165,890
	Financial assets at fair value through other comprehensive income	1,597	(73)	33	1,557
	Financial assets at fair value through profit or loss	363	(6)	8	365
Financial derivatives	Financial derivatives	2,351	-	-	2,351
Held to maturity	Financial assets at amortized cost	18,985	-	(11)	18,974
	Financial assets at fair value through other comprehensive income	2,204	66	-	2,270
	Financial assets at fair value through profit or loss	48	1	-	49
Available for sale	Financial assets at amortized cost	4,874	(1)	(2)	4,871
	Financial assets at fair value through other comprehensive income	43,385	-	-	43,385
	Financial assets at fair value through profit or loss	260	-	-	260
Measured at fair value through profit or loss	Financial assets at amortized cost	25	(2)	-	23
	Financial assets at fair value through other comprehensive income	491	-	-	491
	Financial assets at fair value through profit or loss	19,727	-	-	19,727
Loans – debt securities	Financial assets at amortized cost	8,515	(2)	(19)	8,494
	Financial assets at fair value through other comprehensive income	5,108	(2)	(9)	5,097
Loans - other	Financial assets at amortized cost	6,424	-	(45)	6,379
Cash and cash equivalents		8,239	-	-	8,239
Other assets		25,775	-	3	25,778
Deferred tax assets		1,590	19	306	1,915
Total assets		**317,458**	**(83)**	**(1,260)**	**316,115**

(in millions of PLN)

Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 as at 31 December 2017	Impact of changes in measurement caused by reclassification	Impact of impairment due to expected losses resulting from credit risk	Carrying amount under IFRS 9 as at 1 January 2018
Equity attributable to equity holders of the parent		**14,599**	**(223)**	**(231)**	**14,145**
Share capital		86	-	-	86
Revaluation reserve		157	(34)	41	164
Other capital		11,760	-	-	11,760
Retained earnings		2,596	(189)	(272)	2,135
Non-controlling interest		**22,961**	**140**	**(1,182)**	**21,919**
Total equity		**37,560**	**(83)**	**(1,413)**	**36,064**
Financial liabilities held for trading	Financial liabilities at fair value through profit or loss	4,955	-	-	4,955
Financial liabilities at amortized cost	Financial liabilities at amortized cost	219,595	-	-	219,595
Provisions		45,611	-	153	45,764
Deferred tax liability		638	-	-	638
Other liabilities		9,099	-	-	9,099
Total liabilities		**279,898**	**-**	**153**	**280,051**
Total equity and liabilities		**317,458**	**(83)**	**(1,260)**	**316,115**

Classification and measurement of financial assets

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

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

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

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

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

Business models

The components of financial assets are managed according to business models used to convey information for management purposes. The analysis of models done by the PZU Group covered the following, among others:

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

Financial assets held for trading and those that are held in a model managed at fair value have been classified as measured at fair value through profit or loss.

SPPI test

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

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

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

Financial assets measured at amortized cost

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

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

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

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

At the time of initial application of IFRS9, an assessment was also made of the business model for investment securities, which are mostly held to obtain cash flows and for sale, as a result of which it was concluded that it was common practice in some of these securities to hold them to obtain cash flows and the intentions with respect to them had not changed. Therefore, it was concluded that the appropriate business model for these securities is a model whose objective is achieved by holding financial assets to collect contractual cash flows and accordingly they were reclassified to assets measured at amortized cost. Previously, these securities were classified as available for sale and measured at fair value through equity.

Financial assets measured at fair value through other comprehensive income

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

Classification and measurement of financial liabilities

Financial liabilities measured at fair value through profit or loss

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

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

Financial liabilities measured at amortized cost

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

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

Impairment

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

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

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

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

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

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

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

Change of the approach to calculation of impairment losses has significant consequences in the case of modelling of the credit risk parameters and final amount of the charges made. The loss identification period and IBNR impariment are no longer used. The impairment is designated in three categories:

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

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

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

Calculation of PD and LGD parameters

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

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

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

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

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

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

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

Change in credit risk since initial recognition

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

It is recognized that the credit risk on a financial instrument has not increased significantly at initial recognition and on the reporting date if the financial instrument features low credit risk (that is, it has an external investment-grade rating).

The PZU Group assesses whether the credit risk of financial instruments has increased significantly by comparing the PD parameter for the rest of its lifetime on the reporting date with the PD parameter for the rest of its lifetime estimated at the time of initial recognition.

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

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

The financial assets acquired in the transactions to acquire Pekao and Alior Bank were classified as of the date of acquisition to basket 1 or as POCI, respectively (assets that were covered by impairment losses).

The financial assets that were classified as POCI as of the date of acquisition (classified in the bank to basket 3 or as POCI) do not change their classification on the day of implementing IFRS 9, or on subsequent balance sheet dates. The following standards have been endorsed for the other exposures:

- The PZU Group maintains the banks' classification in respect of exposures that were in basket 1 in the bank on the date of acquisition;
- a check is done of the exposures that were in basket 2 in the banks on the date of acquisition to see whether the loan quality deteriorated after the date of acquisition. If not – these assets are classified as basket 2, also at the PZU Group level; otherwise – the PZU Group upholds the classification to basket 1 (no modifications versus the acquisition date);
- the bank's classification to basket 3 is accepted for exposures for which an impairment has been identified after the date of acquisition.

The assignment of all the assets acquired by banks after the date of acquisition to baskets at the PZU Group level is consistent with the classification used at the level of the bank's financial statements.

Hedge accounting

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

Disclosures

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

(in millions of PLN)

4.1.3. Standards, interpretations and amended standards not yet effective

- Approved by the regulation of the European Commission

Standard/interpretation	Effective date for annual periods starting from	Regulation approving the standard or interpretation	Notes
IFRS 16 – Leases	1 January 2019	1986/2017	IFRS 16 replaces IAS 17 *Leases* and any interpretations related to this standard. In respect of lessees, the new standard eliminates the distinction between financial leases and operating leases. The recognition of current operating leases in the statement of financial position will result in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of remitting lease payments). The rights to use the leased object will be subject to amortization and interest will be charged on the liabilities. This will generate greater costs at the initial stage of the lease, even if the parties have agreed on fixed annual payments. Recognition of leases on the lessor's side will in most cases remain unchanged due to the maintenance of the breakdown between operating leases and financial leases. The PZU Group is currently in the process of assessing these contracts in terms of their fulfilment of the definition of lease and estimating the lease period and the impact on the consolidated financial statements. The PZU Group will take advantage of a waiver of the requirement to apply this standard to short-term leases and leases of low-value assets.
Amendment to IFRS 9 – prepayments with negative compensation	1 January 2019	498/2018	According to the current version of IFRS 9, certain options, which force a lender to accept reduced compensation for granting financing (in the case of negative compensation) do not pass the SPPI test; accordingly any instruments containing such options cannot be classified as measured at amortized cost or at fair value through other comprehensive income. According to the amendment, the positive or negative sign of the prepayment amount will not be important; this means that, depending on the interest rate in effect when the agreement is terminated, payment can be made to a party resulting in prepayment. This compensation must be calculated in the same manner for both a penalty for prepayment and also for a gain earned on prepayment. The change will not affect to a material extent the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	1 January 2019	1595/2018	The interpretation is applied when there is uncertainty to the determination of taxable profit, tax losses, taxable income, outstanding tax losses, unused tax credits and tax rates under IAS 12. The interpretation will not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Notes
IFRS 17 – Insurance contracts	18 May 2017	1 January 2022	The purpose of the standard is to establish the uniform accounting principles for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard will ensure comparability of financial reports between different entities, states and capital markets. In mid 2018 the PZU Group formally launched project work to implement a standard in all the PZU Group insurance companies. Having regard for the ongoing review of the strategic options for implementing this standard, at this stage it is not possible to estimate unequivocally the effect of applying IFRS 17 on the PZU Group's comprehensive income and equity.
Amendment to IAS 28 – Long-term shares in associates and joint ventures	12 October 2017	1 January 2019	According to the amended IAS 28, long-term shares in associates and joint ventures for which the company does not apply the equity method, the applicable standard is IFRS 9, also with regard to impairment. The change will not affect to a material extent the PZU Group's consolidated financial statements.
Amendments to IAS 19 Employee Benefits – plan amendment, curtailment or settlement	7 February 2018	1 January 2019	The amendment contains clarifications for the guidelines in case of a plan amendment, curtailment or settlement during the reporting period. The amendments require entities, after such an event, to use updated actuarial assumptions to calculate current service cost and net interest for the remaining part of the reporting period. The amendments also clarify how requirements concerning the plan's amendment, curtailment or settlement affect asset threshold requirements. The IASB has decided that the scope of these amendments does not cover the settlement of "significant market fluctuation" (in euro). The amendments apply to plan amendments, curtailments or settlements that will take place on or after 1 January 2019, with the possibility of earlier application.

(in millions of PLN)

Name of standard/ interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Notes
Annual improvements to IFRS 2015-2017	12 December 2017	1 January 2019	The amendments pertain to: 1. IFRS 3 - the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2. IFRS 11 - the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3. IAS 12 - the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4. IAS 23 - the amendments clarify that if any specific borrowings remain outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds which an entity generally borrows when calculating the capitalization rate on general borrowings The amendments will have no significant influence on the PZU Group's consolidated financial statements.
Amendment to IFRS 3 – Business combinations	22 October 2018	1 January 2020	The amendments aim to state precisely the difference between the acquisition of a business and an asset acquisition. The amendments did not affect the PZU Group's consolidated financial statements.
Amendments to IAS 1 and IAS 8 – definition of materiality	31 October 2018	1 January 2020	According to the new definition, information is material if one may justifiably expect that if it is overlooked, distorted or concealed this may affect the decisions made by the main users of financial statements on the basis of these financial statements. The change will not affect to a material extent the PZU Group's consolidated financial statements.
Amendments to the framework	29 March 2018	1 January 2020	The amended conceptual assumptions contain several new concepts pertaining to measurement, they incorporate the updated definitions and criteria for recognizing assets and liabilities and the guidelines for reporting financial results. Additionally, they contain explanations pertaining to important areas such as the role of management, prudence and the uncertainty of measurement in financial statements. The amendments will have no significant influence on the PZU Group's consolidated financial statements.

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

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

4.2.1. Settlement of the Pekao acquisition

In connection with the final settlement of the acquisition of the shares in Pekao, a retroactive restatement of data as at 31 December 2017 has been performed. More information on this matter is presented in section 1.4.1.

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

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

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

Comparative data have been restated accordingly.

4.2.3. Amendments to comparative data in Alior Bank

4.2.3.1. Correction of errors pertaining to Corporate Income Tax for 2012-2017

Alior Bank made a correction to the income tax settlement for 2012-2017 due to eliminating from tax accounts for those years the accrued interest that was not received on the date of writing off the uncollectible receivables, thereby causing an understatement of taxable income. At the same time, some of the interest on the receivables written down in the off-balance sheet records was incorrectly recognized as a taxable temporary difference and included in the basis of the deferred tax liability.

This adjustment lowered equity as at 31 December 2017 by PLN 17 million (PLN 5 million on the PZU Group's interest and PLN 12 million on non-controlling interests, respectively) and raised net profit for the first 9 months of 2017 by PLN 3 million (PLN 1 million on the PZU Group's interest and PLN 2 million on non-controlling interests, respectively).

4.2.3.2. Correction of the recognition of the result on structured products

Alior Bank altered the method of measuring the fair value of the option embedded in the structured products (certificates of deposit) issued by the bank. Previously, the embedded options were measured using parameters not coming from an active market. Presently, parameters from the interbank market are used where the bank enters into oppposite transactions, hedging the options embedded in structured products. Alior Bank also altered its method of settling costs and income related to the issue of certificates of deposit. Under its previous methodology, marginal costs were approximately close to the amount of the distribution fee and therefore the costs and the fee were recognized all at once at the time of entering into the transaction. Alior

(in millions of PLN)

Bank reviewed its marginal costs as a result of which their level was reduced. Accordingly, Alior Bank presently settles the income from the distribution fee and the marginal costs spread over time until the date of maturity of the certificates of deposit.

This adjustment lowered equity as at 31 December 2017 by PLN 35 million (PLN 11 million on the PZU Group's interest and PLN 24 million on non-controlling interests, respectively) and lowered net profit for the first 9 months of 2017 by PLN 19 million (PLN 6 million on the PZU Group's interest and PLN 13 million on non-controlling interests, respectively).

4.2.3.3. Correction to the recognition of the cost for the Bank Guarantee Fund fee in respect to a portion of the contribution in the form of freezing securities in the last period

In conjunction with the amendment as of 2017 to the BFG Act and the regulation of 10 March 2017 issued by the Minister of Development and Finance on transferring in the form of payment obligations the contributions paid to BFG, availing itself of § 4 of this regulation Alior Bank makes the settlement (30% of the contribution due) with BFG in the form of a payment obligation in the form of a freeze on securities. After receipt on 2 March 2017 and 20 April 2017 of letters from BFG specifying the amounts of the contributions to the Deposit Guarantee Fund and the Forced Restructuring Fund, Alior Bank applied an incorrect method of keeping records by recognizing this portion of the contribution similarly as in the case of freezing securities for the Guaranteed Funds Protection Fund and accordingly it failed to recognize the cost of the payment obligation in its profit and loss account. According to IAS 37 and IFRIC 21 a payment obligation in the form of freezing securities, just as the remaining portion of the contribution to BFG should be recognized as a cost in the current period. Accordingly, Alior Bank made a retrospective adjustment by recognizing the payment obligation in the form of freezing securities for 2017 as a cost in 2017 and restating the comparative data.

This adjustment lowered equity as at 31 December 2017 by PLN 19 million (PLN 6 million on the PZU Group's interest and PLN 13 million on non-controlling interests, respectively) and lowered net profit for the first 9 months of 2017 by PLN 16 million (PLN 5 million on the PZU Group's interest and PLN 11 million on non-controlling interests, respectively).

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

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

Assets	31 December 2017 *(historical)*	Adjustment	31 December 2017 *(restated)*	1 January 2017 *(historical)*	Adjustment	1 January 2017 *(restated)*
Goodwill	3,839	(9) 1)	3,830	1,583	-	1,583
Property, plant and equipment	3,239	48 1)	3,287	1,467	-	1,467
Investment property	2,354	1 1)	2,355	1,738	-	1,738
Loan receivables from clients	n/a	169,457 2)	169,457	n/a	44,998 2)	44,998
Financial derivatives	n/a	2,351 2)	2,351	n/a	953 2)	953
Investment financial assets	281,854	(171,808) 2)	110,046	105,286	(45,951) 2)	59,335
Measured at fair value through profit or loss	22,247	(2,004) 2)	20,243	21,882	(881) 2)	21,001
Hedge derivatives	347	(347) 2)	n/a	72	(72) 2)	n/a
Loans	189,504	(169,457) 2)	20,047	54,334	(44,998) 2)	9,336
Deferred tax assets	1,577	(10) 1) 23 3)	1,590	633	8 3)	641
Total assets	**317,405**	**53**	**317,458**	**125,296**	**8**	**125,304**

(in millions of PLN)

Equity and liabilities	31 December 2017 *(historical)*	Adjustment	31 December 2017 *(restated)*	1 January 2017 *(historical)*	Adjustment	1 January 2017 *(restated)*
Equity						
Equity attributable to equity holders of the parent	14,622	(23)	14,599	12,998	(8)	12,990
Retained earnings	2,619	(1) [1] (22) [3]	2,596	2,043	(8) [3]	2,035
Non-controlling interest	22,979	31 [1] (49) [3]	22,961	4,086	(19) [3]	4,067
Total equity	**37,601**	**(41)**	**37,560**	**17,084**	**(27)**	**17,057**
Financial liabilities	224,507	43 [3]	224,550	60,030	15 [3]	60,045
Other liabilities	9,045	51 [3]	9,096	4,991	20 [3]	5,011
Total liabilities	**279,804**	**94**	**279,898**	**108,212**	**35**	**108,247**
Total equity and liabilities	**317,405**	**53**	**317,458**	**125,296**	**8**	**125,304**

[1] Change described in section 4.2.1.
[2] Change described in section 4.2.2.
[3] Change described in section 4.2.3.

Consolidated profit and loss account	1 January – 30 September 2017 *(historical)*	Adjustment	1 January – 30 September 2017 *(restated)*
Revenue from commissions and fees	1,512	(7) [1] (18) [3]	1,487
Net investment income	6,150	42 [1]	6,192
Net result on realization and impairment losses on investments	(663)	663 [2]	n/a
Net result on realization of financial instruments and investments	n/a	(11) [1] 230 [2]	219
Movement in allowances for expected credit losses and impairment losses on financial instruments	n/a	(893) [2]	(893)
Net movement in fair value of assets and liabilities measured at fair value	346	(12) [1] (24) [3]	310
Interest expenses	(884)	4 [1] 10 [3]	(870)
Administrative expenses	(3,644)	7 [1] 9 [3]	(3,628)
Other operating expenses	(1,857)	(112) [1] (17) [3]	(1,986)
Profit before tax	**3,905**	**(129)**	**3,776**
Income tax	(902)	17 [1] 8 [3]	(877)
Net profit	**3,003**	**(104)**	**2,899**

[1] Change described in section 4.2.1.
[2] Change described in section 4.2.2.
[3] Change described in section 4.2.3.

(in millions of PLN)

Consolidated statement of comprehensive income	1 January – 30 September 2017 *(historical)*	Adjustment	1 January – 30 September 2017 *(restated)*
Net profit	3,003	(104)	2,899
Other comprehensive income	118	10	128
Subject to subsequent transfer to profit or loss	117	10	127
Measurement of financial instruments available for sale	108	10 [1)]	118
Total net comprehensive income	**3,121**	**(94)**	**3,027**
- comprehensive income attributable to equity holders of the Parent Company	2,187	(23)	2,164
- comprehensive income attributed to holders of non-controlling interest	934	(71)	863

[1)] Change described in section 4.2.1.

Consolidated cash flow statement	1 January – 30 September 2017 *(historical)*	Adjustment	1 January – 30 September 2017 *(restated)*
Profit before tax	3,905	(129) [1) 2)]	3,776
Adjustments	(3,358)	129	(3,229)
Movement in loan receivables from clients	(9,128)	1,343 [1)]	(7,785)
Movement in the valuation of assets measured at fair value	(346)	12 [1)]	(334)
Interest income and expenses	(1,223)	(46) [1)]	(1,269)
Amortization of intangible assets and depreciation of property, plant and equipment	493	91 [1)]	584
Movement in receivables	(1,701)	16 [1)]	(1,685)
Movement in liabilities	704	332[)]	737
Other adjustments	760	(1,320) [1) 2)]	(560)
Net cash flows from operating activities	**547**	**-**	**547**

[1)] Change described in section 4.2.1.
[2)] Change described in section 4.2.3.

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

5.1 Distribution of the PZU Group's 2017 financial result

On 28 June 2018 the PZU Ordinary Shareholder Meeting adopted a resolution to distribute net profit for 2017. This matter is described in section 21.

5.2 The most important dividends distributed between the PZU Group companies

On 21 June 2018, Pekao's Ordinary Shareholder Meeting adopted a resolution on the distribution of 2017 net profit, earmarking PLN 2,074 million, i.e. PLN 7.90 per share to be paid in dividends.

The record date fell on 6 July 2018 and the dividend payout date on 20 July 2018. PZU received a dividend of PLN 415 million.

(in millions of PLN)

6. Material events after the end of the reporting period

6.1 Subordinated bond issue by Pekao

Pekao issued two series of subordinated bonds on 15 October 2018. The most important parameters of the instruments issued are presented below:

	Nominal value per unit (PLN)	Total nominal value (in PLN m)	Currency	Interest rate	Issue date	Maturity date
Series B	500,000	550	PLN	WIBOR 6M + 1.55% margin	15 October 2018	16 October 2028 with an early redemption option within 5 years from issue date or if KNF does not consent to classify it as a Tier II instrument, or if there is a regulatory change to the classification of the bond or a change in bond taxation
Series C	500,000	200	PLN	WIBOR 6M + 1.8% margin	15 October 2018	14 October 2033 with an early redemption option within 10 years from issue date or if KNF does not consent to classify it as a Tier II instrument, or if there is a regulatory change to the classification of the bond or a change in bond taxation

Both series of the outstanding bonds are to be introduced onto the Catalyst alternative trading platform for debt securities run by BondSpot SA or WSE.

On 26 October 2018 Pekao received KNF's decision consenting to the classification of the series C bonds as Tier II capital instruments. The application for consent to the classification of the series B bonds as Tier II capital instruments is under examination by KNF.

7. Supplementary notes to the condensed interim consolidated financial statements

7.1 Gross written premiums

Gross written premiums	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Gross written premiums in non-life insurance	3,309	11,001	3,182	10,520
In direct insurance	3,315	11,018	3,177	10,526
In indirect insurance	(6)	(17)	5	(6)
Gross written premiums in life insurance	2,068	6,257	2,145	6,413
Individual insurance premiums	349	1,094	428	1,266
Individually continued insurance premiums	501	1,502	500	1,485
Group insurance premiums	1,218	3,661	1,217	3,662
Total gross written premiums	**5,377**	**17,258**	**5,327**	**16,933**

(in millions of PLN)

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Accident and sickness insurance (group 1 and 2)	177	487	166	461
Motor third party liability insurance (group 10)	1,450	4,451	1,411	4,302
Other motor insurance (group 3)	907	2,849	877	2,757
Marine, aviation and transport insurance (classes 4, 5, 6, 7)	10	55	11	50
Insurance against fire and other property damage (groups 8 and 9)	457	2,095	427	1,946
TPL insurance (groups 11, 12, 13)	140	560	124	535
Credit and suretyship (classes 14, 15)	21	68	23	69
Assistance (group 18)	121	356	115	324
Legal protection (group 17)	2	7	2	7
Other (group 16)	30	90	21	75
Total	**3,315**	**11,018**	**3,177**	**10,526**

7.2 Revenue from commissions and fees

Revenue from commissions and fees	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Banking activity	685	1,999	663	1,220
Brokerage fees	37	124	61	112
Fiduciary activity	18	52	22	32
Payment card and credit card services	218	618	209	358
Fees on account of insurance intermediacy activities	31	91	32	74
Credits and loans	117	336	88	177
Bank account-related services	107	318	109	207
Transfers	79	232	74	125
Cash operations	27	77	27	53
Receivables purchased	10	29	7	16
Suretyship, letters of credit, collections, promises	22	58	19	30
Other commission	19	64	15	36
Revenue and payments received from funds and mutual fund companies	137	410	91	167
Pension insurance	30	114	33	96
Other	1	3	1	4
Total revenue from commissions and fees	**853**	**2,526**	**788**	**1,487**

(in millions of PLN)

7.3 Net investment income

Net investment income	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Interest income, including:	2,800	8,308	2,660	5,488
Loan receivables from clients	2,080	6,205	2,037	4,020
Debt securities measured at fair value through other comprehensive income	190	627	n/a	n/a
Debt securities measured at amortized cost	295	910	n/a	n/a
Buy-sell-back transactions	17	54	9	9
Term deposits with credit institutions	36	99	29	49
Financial assets available for sale	n/a	n/a	193	331
Financial assets held to maturity	n/a	n/a	243	688
Debt securities classified in the loans portfolio	n/a	n/a	10	54
Loans	79	163	57	175
Receivables purchased	25	80	31	52
Hedge derivatives	66	136	31	60
Receivables	1	2	12	27
Cash and cash equivalents	11	32	8	23
Dividend income, including:	19	65	22	38
Investment financial assets measured at fair value through profit or loss	19	45	n/a	n/a
Investment financial assets measured at fair value through other comprehensive income	-	20	n/a	n/a
Financial assets measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	19	30
Financial assets held for trading	n/a	n/a	4	6
Financial assets available for sale	n/a	n/a	(1)	2
Foreign exchange differences	165	121	181	548
Income on investment property	64	192	65	190
Investment property maintenance expenses	(25)	(74)	(22)	(72)
Investment activity expenses	(6)	(17)	(3)	(19)
Other	9	25	7	19
Total net investment income	**3,026**	**8,620**	**2,910**	**6,192**

(in millions of PLN)

7.4 Net result on realization of financial instruments and investments

Net result on realization of financial instruments and investments	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Investment financial assets	(49)	69	69	70
Debt instruments measured at fair value through other comprehensive income	16	109	n/a	n/a
Financial instruments measured at fair value through profit or loss	(52)	(31)	n/a	n/a
Equity instruments	(61)	(55)	n/a	n/a
Participation units and investment certificates	(9)	(13)	n/a	n/a
Debt instruments	18	37	n/a	n/a
Instruments measured at amortized cost	(13)	(9)	n/a	n/a
Financial assets available for sale, including:	n/a	n/a	10	-
Equity instruments	n/a	n/a	-	(9)
Debt securities	n/a	n/a	10	9
Financial assets measured at fair value through profit or loss – classified as such upon first recognition, including:	n/a	n/a	(39)	11
Equity instruments	n/a	n/a	(17)	(3)
Debt securities	n/a	n/a	(22)	14
Financial assets held for trading, including:	n/a	n/a	98	59
Equity instruments	n/a	n/a	46	86
Debt securities	n/a	n/a	52	(27)
Loan receivables from clients measured at amortized cost	8	37	-	-
Derivatives	(13)	(31)	(71)	165
Short sale	2	5	-	-
Loans	-	-	3	25
Receivables	(12)	(39)	(20)	(49)
Investment property	6	-	-	7
Other	1	1	-	1
Net result on realization of financial instruments and investments	**(57)**	**42**	**(19)**	**219**

(in millions of PLN)

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

Movement in allowances for expected credit losses and impairment losses on financial instruments	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017**	**1 January – 30 September 2017**
Investment financial assets	(6)	(3)	(2)	5
Debt instruments measured at fair value through other comprehensive income	3	1	n/a	n/a
Instruments measured at amortized cost	(9)	(4)	(2)	5
- debt instruments	1	9	n/a	n/a
- term deposits with credit institutions	1	-	-	-
- loans	(11)	(13)	(2)	5
Loan receivables from clients	(418)	(1,213)	(330)	(835)
Measured at amortized cost	(419)	(1,218)	(330)	(835)
Measured at fair value through other comprehensive income	1	5	n/a	n/a
Receivables	(10)	(51)	(13)	(54)
Associates	2	(3)	(9)	(9)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(432)**	**(1,270)**	**(354)**	**(893)**

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

Net movement in fair value of assets and liabilities measured at fair value	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017** (restated)	**1 January – 30 September 2017** (restated)
Investment financial instruments	100	91	242	679
Measured at fair value through profit or loss	100	91	n/a	n/a
Equity instruments	75	(136)	n/a	n/a
Debt securities	54	300	n/a	n/a
Participation units and investment certificates	(29)	(73)	n/a	n/a
Measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	123	344
Equity instruments	n/a	n/a	105	327
Debt securities	n/a	n/a	18	17
Held for trading	n/a	n/a	119	335
Equity instruments	n/a	n/a	38	177
Debt securities	n/a	n/a	81	158
Derivatives	121	396	34	(134)
Measurement of liabilities to members of consolidated mutual funds	3	18	(6)	(40)
Investment contracts for the client's account and risk (unit-linked)	6	16	(2)	(21)
Investment property	(31)	79	(4)	(174)
Loan receivables from clients	2	2	-	-
Net movement in fair value of assets and liabilities measured at fair value, total	**201**	**602**	**264**	**310**

(in millions of PLN)

7.7 Other operating income

Other operating income	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Revenues on the sales of products, merchandise and services by non-insurance companies	130	427	137	354
Revenues from direct claims handling on behalf of other insurance undertakings	45	145	51	158
Reversal of provisions	170	409 [1)]	32	68
Reimbursement of the costs of pursuit of claims	13	27	6	26
Reinsurance commissions and profit participation	11	33	14	32
Reversal of impairment losses for non-financial assets	9	17	1	18
Indemnity received	2	11	2	6
Interest for late payment of amounts due under direct insurance and outward reinsurance	5	19	6	14
Gain from sale of property, plant and equipment	7	17	-	-
Commissions for acting as an emergency adjuster	1	4	2	5
Written off liabilities on account of premium refunds and payment surpluses	-	4	9	57
Other	28	108	61	113
Other operating income, total	**421**	**1,221**	**321**	**851**

[1)] including a reversal of 356 million by the banks of a provision for guarantees and sureties given.

7.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Claims, benefits and movement in technical provisions	**3,757**	**11,261**	**4,187**	**11,566**
In non-life insurance	2,291	6,706	2,536	6,404
- claims and benefits	1,898	5,463	1,997	5,256
- movement in technical provisions	201	663	342	577
- claims handling expenses	192	580	197	571
In life insurance	1,466	4,555	1,651	5,162
- claims and benefits	1,450	4,527	1,392	4,451
- movement in technical provisions	(15)	(69)	227	614
- claims handling expenses	31	97	32	97
Reinsurers' share in claims, benefits and movement in technical provisions	**(118)**	**(277)**	**(149)**	**(314)**
In non-life insurance	(118)	(277)	(149)	(314)
Total net insurance claims and benefits	**3,639**	**10,984**	**4,038**	**11,252**

(in millions of PLN)

7.9 Fee and commission expenses

Fee and commission expenses	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Costs of card and ATM transactions, including card issue costs	121	323	108	187
Commissions on acquisition of banking clients	20	55	10	29
Fees for the provision of ATMs	13	34	11	24
Costs of awards to banking clients	4	11	3	15
Costs of bank transfers and remittances	7	26	12	23
Additional services attached to banking products	7	21	5	16
Brokerage fees	4	12	3	7
Costs of administration of bank accounts	1	3	2	2
Costs of banknote operations	4	11	5	6
Fiduciary activity expenses	5	14	6	7
Other commission	11	40	16	54
Total fee and commission expenses	**197**	**550**	**181**	**370**

7.10 Interest expenses

Interest expenses	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Term deposits	264	805	262	484
Current deposits	115	316	88	152
Outstanding own debt securities	97	287	72	157
Hedge derivatives	1	4	1	17
Loans	13	18	5	5
Repurchase transactions	15	45	15	35
Bank loans contracted by PZU Group companies	2	7	2	5
Other	9	26	5	15
Total interest expenses	**516**	**1,508**	**450**	**870**

(in millions of PLN)

7.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Consumption of materials and energy	70	214	70	184
Third party services	420	1,248	395	974
Taxes and charges	32	81	28	69
Employee expenses	1,126	3,551	1,094	2,646
Depreciation of property, plant and equipment	97	286	102	211
Amortization of intangible assets	89	259	102	214
Other, including:	722	2,280	756	2,208
- commissions in insurance activities	558	1,757	538	1,675
- advertising	48	178	55	130
- remuneration of group insurance administrators in work establishments	51	154	51	156
- other	65	191	112	247
Movement in deferred acquisition expenses	41	(7)	4	(68)
Administrative, acquisition and claims handling expenses, total	**2,597**	**7,912**	**2,551**	**6,438**

7.12 Other operating expenses

Other operating expenses	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Levy on financial institutions	274	816	261	554
Expenses of the core business of non-insurance and non-banking companies	170	526	142	415
Direct claims handling expenses on behalf of other insurance undertakings	47	150	54	164
Compulsory payments to insurance market institutions and banking market institutions	33	86	20	58
Bank Guarantee Fund	47	324	33	86
Insurance Indemnity Fund	17	52	17	52
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	3	24	3	24
Expenditures for prevention activity	22	53	8	29
Establishment of provisions	181	430 [1)]	38	134
Amortization of intangible assets purchased in company acquisition transactions	83	250	132	173
Recognition of impairment losses for non-financial assets	-	10	20	53
Donations	1	25	1	14
Other	69	287	82	230
Other operating expenses, total	**947**	**3,033**	**811**	**1,986**

[1)] including the establishment of a provision by the banks worth 362 million for guarantees and sureties given.

(in millions of PLN)

7.13 Earnings per share

Earnings per share	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Net profit attributable to the equity holders of the parent company	1,007	2,432	683	2,121
Weighted average basic and diluted number of common shares	863,265,576	863,382,147	863,522,006	863,518,494
Number of outstanding shares	863,523,000	863,523,000	863,523,000	863,523,000
Average weighted number of treasury shares (held by consolidated entities)	(257,424)	(140,853)	(994)	(4,506)
Basic and diluted earnings (losses) per common share (in PLN)	1.17	2.82	0.79	2.46

In the 9 month period ended 30 September 2018, there were no transactions or events resulting in the dilution of earnings per share.

7.14 Income tax

Total amount of current and deferred tax	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Recognized through profit or loss	(461)	(1,250)	(426)	(877)
- current tax	(667)	(1,582)	(384)	(826)
- deferred tax	206	332	(42)	(51)
Recognized in other comprehensive income (deferred tax)	30	53	(21)	(37)
Total amount of current and deferred tax	**(431)**	**(1,197)**	**(447)**	**(914)**

Income tax on other comprehensive income items	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Gross other comprehensive income	(175)	(238)	145	165
Income tax	30	53	(21)	(37)
Net other comprehensive income	**(145)**	**(185)**	**124**	**128**

7.15 Goodwill

Goodwill	30 September 2018	31 December 2017 (restated)
Pekao	1,577	1,577
Alior Bank	746	746
PIM	692	692
Lietuvos Draudimas AB [1)]	474	462
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	38	37
Medical companies	101	90
Other	5	5
Total goodwill	**3,854**	**3,830**

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

(in millions of PLN)

7.16 Intangible assets

Intangible assets by type groups	30 September 2018	31 December 2017
Software, licenses and similar assets	1,235	1,282
Trademarks	610	607
Client relations	1,033	1,282
Intangible assets under development	248	251
Other intangible assets	14	21
Total intangible assets	**3,140**	**3,443**

7.17 Other assets

Other assets	30 September 2018	31 December 2017
Reinsurance settlements	73	157
Estimated salvage and subrogation	186	192
Deferred IT expenses	71	63
Accrued direct claims handling receivables	52	60
Inventories	67	73
Accruals under insurance contracts (outside of the PZU Group)	4	58
Prepayments and accruals for taxes on property, means of transport and land	6	-
Accruals for the costs of allowances to the Company Social Benefit Fund	12	-
Other assets	93	89
Total other assets	**564**	**692**

7.18 Property, plant and equipment

Property, plant and equipment by groups by type	30 September 2018	31 December 2017 (restated)
Plant and machinery	496	555
Means of transport	122	127
Property, plant and equipment under construction	126	176
Real property	2,135	2,215
Other property, plant and equipment	237	214
Total property, plant and equipment	**3,116**	**3,287**

7.19 Loan receivables from clients

Loan receivables from clients	30 September 2018	31 December 2017
Measured at amortized cost	176,503	169,457
Measured at fair value through other comprehensive income	1,171	n/a
Measured at fair value through profit or loss	318	n/a
Total receivables from clients on account of loans	**177,992**	**169,457**

The amount of allowances for expected credit losses as at 30 September 2018 was PLN 10,456 million (as at 31 December 2017 impairment losses were PLN 8,839 million).

(in millions of PLN)

The allowance for expected credit losses pertains to loan receivables from clients measured at fair value through other comprehensive income is recognized in the line item "Revaluation reserve" and it does not lower the carrying amount of assets. The carrying amount of this allowance as at 30 September 2018 is PLN 26 million.

Loan receivables from clients	30 September 2018	31 December 2017
Retail segment	**95,408**	**89,407**
Operating loans	262	278
Consumer finance	26,937	26,185
Consumer finance loans	2,356	2,129
Loan to purchase securities	70	109
Overdrafts in credit card accounts	1,135	1,297
Loans for residential real estate	63,580	58,456
Other mortgage loans	853	832
Other receivables	215	121
Business segment	**82,584**	**80,050**
Operating loans	35,249	33,879
Car financing loans	44	80
Investment loans	25,755	26,108
Receivables purchased (factoring)	4,212	4,576
Overdrafts in credit card accounts	132	179
Loans for residential real estate	459	24
Other mortgage loans	7,768	8,465
Financial leases	7,622	5,086
Other receivables	1,343	1,653
Total receivables from clients on account of loans	**177,992**	**169,457**

(in millions of PLN)

7.20 Financial derivatives

Derivatives – assets	30 September 2018	31 December 2017
Interest rate derivatives	**1,469**	**1,699**
Instruments designated as fair value hedges – unquoted instruments, including:	41	16
- SWAP transactions	41	16
Instruments designated as cash flow hedges – unquoted instruments, including:	182	289
- SWAP transactions	182	289
Instruments carried as held for trading, including:	1,246	1,394
Unquoted instruments, including:	1,246	1,394
- FRA transactions	2	1
- SWAP transactions	1,234	1,381
- call options (purchase)	8	10
- put options (sale)	2	2
Total foreign exchange derivatives	**363**	**444**
Instruments designated as cash flow hedges – unquoted instruments, including:	50	42
- SWAP transactions	50	42
Instruments carried as held for trading, including:	313	402
Instruments quoted on a regulated market, including:	8	19
- forward contracts	8	19
Unquoted instruments, including:	305	383
- forward contracts	96	175
- SWAP transactions	146	164
- call options (purchase)	42	27
- put options (sale)	21	17
Derivatives related to equity prices – carried as held for trading, total	**110**	**104**
Unquoted instruments, including:	110	104
- call options (purchase)	108	102
- put options (sale)	2	2
Derivatives related to commodity prices – carried as held for trading, total	**88**	**104**
Instruments quoted on a regulated market, including:	10	10
- forward contracts	10	10
Unquoted instruments, including:	78	94
- forward contracts	11	19
- SWAP transactions	29	59
- call options (purchase)	35	15
- put options (sale)	3	1
Derivatives – assets, total	**2,030**	**2,351**

(in millions of PLN)

Derivatives – liabilities	**30 September 2018**	**31 December 2017**
Interest rate derivatives	**2,771**	**2,797**
Instruments designated as fair value hedges – unquoted instruments, including:	134	186
- SWAP transactions	134	186
Instruments designated as cash flow hedges – unquoted instruments, including:	754	682
- SWAP transactions	754	682
Instruments carried as held for trading, including:	1,883	1,929
Unquoted instruments, including:	1,883	1,929
- SWAP transactions	1,876	1,921
- call options (purchase)	3	2
- put options (sale)	4	6
Total foreign exchange derivatives	**328**	**517**
Instruments carried as held for trading, including:	328	517
Instruments quoted on a regulated market, including:	4	1
- forward contracts	4	1
Unquoted instruments, including:	324	516
- forward contracts	153	221
- SWAP transactions	112	256
- call options (purchase)	21	8
- put options (sale)	38	31
Derivatives related to equity prices – carried as held for trading, total	**77**	**57**
Instruments quoted on a regulated market, including:	8	-
- forward contracts	8	-
Unquoted instruments, including:	69	57
- call options (purchase)	3	10
- put options (sale)	66	47
Derivatives related to commodity prices – carried as held for trading, total	**77**	**103**
Instruments quoted on a regulated market, including:	7	21
- forward contracts	7	21
Unquoted instruments, including:	70	82
- forward contracts	7	7
- SWAP transactions	28	59
- call options (purchase)	23	8
- put options (sale)	12	8
Derivatives – liabilities, total	**3,253**	**3,474**

(in millions of PLN)

7.21 Investment financial assets

Investment financial assets - IFRS 9	30 September 2018		
	at amortized cost	at fair value through other comprehensive income	at fair value through profit or loss
Equity instruments	**n/a**	**538**	**1,469**
Quoted on a regulated market	n/a	318	1,416
Not quoted on a regulated market	n/a	220	53
Participation units and investment certificates	**n/a**	**n/a**	**4,452**
Quoted on a regulated market	n/a	n/a	139
Not quoted on a regulated market	n/a	n/a	4,313
Debt securities	**32,871**	**37,652**	**12,770**
Government securities	25,190	29,829	12,372
Domestic	25,057	28,063	10,368
Fixed rate	23,043	15,143	8,644
Floating rate	2,014	12,920	1,724
Foreign	133	1,766	2,004
Fixed rate	133	1,766	1,991
Floating rate	-	-	13
Other	7,681	7,823	398
Quoted on a regulated market	533	3,462	217
Fixed rate	222	575	214
Floating rate	311	2,887	3
Not quoted on a regulated market	7,148	4,361	181
Fixed rate	989	-	2
Floating rate	6,159	4,361	179
Other, including:	**15,225**	**-**	**-**
Buy-sell-back transactions	3,770	-	-
Term deposits with credit institutions	7,008	-	-
Loans	4,447	-	-
Investment financial assets, total	**48,096**	**38,190**	**18,691**

The allowance for expected credit losses on financial assets measured at amortized cost as at 30 September 2018 is PLN 152 million (including PLN 82 million pertaining to debt securities, PLN 58 million for loans and PLN 12 million for term deposits with credit institutions).

The allowance for expected credit losses pertaining to debt securities measured at fair value through other comprehensive income is recognized in the line item "Revaluation reserve" and it does not lower the carrying amount of assets. The carrying amount of this allowance as at 30 September 2018 is PLN 31 million.

Equity instruments measured at fair value through other comprehensive income	30 September 2018	31 December 2017
Quoted on a regulated market	318	n/a
Grupa Azoty SA	261	n/a
Polimex-Mostostal SA	43	n/a
Other	14	n/a
Not quoted on a regulated market	220	n/a
Biuro Informacji Kredytowej SA	181	n/a
PSP sp. z o.o.	21	n/a
Krajowa Izba Rozliczeniowa SA	13	n/a
Other	5	n/a
Equity instruments measured at fair value through other comprehensive income, total	**538**	**n/a**

(in millions of PLN)

Investment financial assets - IAS 39	31 December 2017				
	held to maturity	available for sale	at fair value – classified upon first recognition	held for trading	loans
Equity instruments	**n/a**	**664**	**1,947**	**4,617**	**n/a**
Quoted on a regulated market	n/a	262	1,781	562	n/a
Not quoted on a regulated market	n/a	402	166	4,055	n/a
Debt securities	**21,237**	**47,855**	**4,703**	**8,976**	**13,623**
Government securities	21,006	33,649	4,664	8,699	1
Domestic	20,641	32,547	4,351	6,702	-
Fixed rate	19,277	20,753	4,054	4,834	-
Floating rate	1,364	11,794	297	1,868	-
Foreign	365	1,102	313	1,997	1
Fixed rate	365	1,102	313	1,964	1
Floating rate	-	-	-	33	-
Other	231	14,206	39	277	13,622
Quoted on a regulated market	102	694	39	175	977
Fixed rate	102	694	39	175	281
Floating rate	-	-	-	-	696
Not quoted on a regulated market	129	13,512	-	102	12,645
Fixed rate	31	13,077 [1)]	-	-	1,181
Floating rate	98	435	-	102	11,464
Other, including:	**-**	**-**	**-**	**-**	**6,424**
Buy-sell-back transactions	-	-	-	-	885
Term deposits with credit institutions	-	-	-	-	1,841
Loans	-	-	-	-	3,698
Investment financial assets, total	**21,237**	**48,519**	**6,650**	**13,593**	**20,047**

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

The impairment loss on financial assets held to maturity on 31 December 2017 was PLN 1 million.

The impairment loss on financial assets available for sale on 31 December 2017 was PLN 34 million.

The impairment loss on financial assets classified as belonging to the loan portfolio on 31 December 2017 was PLN 116 million.

(in millions of PLN)

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

Country	30 September 2018	31 December 2017
United States	912	833
Lithuania	587	431
Ireland	231	7
Spain	230	10
Portugal	224	-
Hungary	152	195
Romania	150	106
Croatia	141	98
Latvia	77	64
Indonesia	77	199
Russia	74	44
Bulgaria	74	55
Ukraine	73	62
Turkey	55	150
Brazil	52	105
Argentina	52	101
Other	742 [1)]	1,318 [2)]
Total	**3,903**	**3,778**

[1)] The Other line item states the countries with respect to which the balance sheet exposure does not exceed the equivalent of PLN 50 million: Australia, Azerbaijan, Belgium, Bolivia, Chile, Denmark, Dominican Republic, Egypt, Ecuador, Philippines, France, Ghana, Greece, Guatemala, The Netherlands, Jamaica, Jordan, Kazakhstan, Kenya, Columbia, Costa Rica, Morocco, Mexico, Germany, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, South Africa, Senegal, Serbia, Slovenia, Sri Lanka, Sweden, Trinidad and Tobago, Uruguay, United Kingdom, Vietnam, Italy, Ivory Coast

[2)] The Other line item shows: Azerbaijan, Chile, Dominican Republic, Ecuador, Philippines, Guatemala, Jamaica, Jordan, Kazakhstan, Kenya, Columbia, Costa Rica, Morocco, Mexico, Germany, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, South Africa, Senegal, Serbia, Slovakia, Slovenia, Sri Lanka, Trinidad and Tobago, Uruguay, United Kingdom, Italy, Ivory Coast, Zambia

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

Issuer	30 September 2018	31 December 2017
Companies from the WIG-Banks Index	473	563
Companies from the WIG-Chemicals Index	9	9
Companies from the WIG-Energy Index	1,189	1,886
Companies from the WIG-Fuels Index	447	666
Mining and quarrying (including companies included in the WIG-Mining index)	170	644
Manufacturing	1,176	1,159
Transportation and storage	1,498	1,904
Public utility services	767	611
Privately-held domestic banks	-	20
Foreign banks	2,582	61
Domestic local governments	6,066	6,092
National Bank of Poland	-	13,097
Other	1,525	1,663
Total	**15,902**	**28,375**

7.21.1. Information on the changes in the economic situation and business conditions exerting a material effect on the fair value of financial assets and liabilities

Information on changes in the economic situation and business conditions materially affecting the fair value of financial assets and liabilities is presented in sections 15 and 17.

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

In the 9 month period ended 30 September 2018, no changes were made to the classification of financial assets resulting from a change in the purpose or use of such assets.

7.22 Fair value

7.22.1. Description of valuation techniques

7.22.1.1. Debt securities and loans

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

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

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

7.22.1.2. Equity-based financial assets

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

Fair values of participation units and investment certificates of mutual funds are measured using the value of the participation units and investment certificates published by the mutual fund companies. Such valuation reflects the PZU Group's share in net assets of these funds.

7.22.1.3. Derivatives

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

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

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

7.22.1.4. Loan receivables from clients

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

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

7.22.1.5. Properties measured at fair value

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

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

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

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

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

Investment property is measured in accordance with the following rules:

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

7.22.1.6. Financial liabilities

Liabilities under deposits

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

Liabilities on the issue of own debt securities and subordinated liabilities

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

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

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

Liabilities to members of consolidated mutual funds

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

Liabilities on borrowed securities

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

7.22.2. Fair value hierarchy

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

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

- options embedded in certificates of deposit issued by PZU Group companies and options concluded in the interbank market to hedge embedded option positions.

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

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

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

Measured assets	Unobservable data	Description	Impact on measurement
Own issues and subordinated loans	Issue spread above the market curve	If historical issue spread above the market curve is used, these issues are classified at level III of the fair value hierarchy.	Negative correlation.
Equity instruments not quoted on an active market		Quotations of financial services	

(in millions of PLN)

7.22.2.1. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 September 2018				31 December 2017 (restated data)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Investment financial assets measured at fair value through other comprehensive income	26,459	6,572	5,159	38,190	n/a	n/a	n/a	n/a
Equity instruments	318	-	220	538	n/a	n/a	n/a	n/a
Debt securities	26,141	6,572	4,939	37,652	n/a	n/a	n/a	n/a
Investment financial assets measured at fair value through profit or loss	12,987	5,367	337	18,691	n/a	n/a	n/a	n/a
Equity instruments	1,344	-	125	1,469	n/a	n/a	n/a	n/a
Participation units and investment certificates	139	4,313	-	4,452	n/a	n/a	n/a	n/a
Debt securities	11,504	1,054	212	12,770	n/a	n/a	n/a	n/a
Loan receivables from clients	-	-	1,489	1,489	n/a	n/a	n/a	n/a
Measured at fair value through other comprehensive income	-	-	1,171	1,171	n/a	n/a	n/a	n/a
Measured at fair value through profit or loss	-	-	318	318	n/a	n/a	n/a	n/a
Financial derivatives	18	1,903	109	2,030	29	2,222	100	2,351
Financial assets available for sale	n/a	n/a	n/a	n/a	30,027	17,081	1,411	48,519
Equity instruments	n/a	n/a	n/a	n/a	210	156	298	664
Debt securities	n/a	n/a	n/a	n/a	29,817	16,925	1,113	47,855
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	n/a	n/a	n/a	n/a	6,143	464	43	6,650
Equity instruments	n/a	n/a	n/a	n/a	1,802	127	18	1,947
Debt securities	n/a	n/a	n/a	n/a	4,341	337	25	4,703
Financial instruments measured at fair value through profit or loss – held for trading	n/a	n/a	n/a	n/a	7,363	6,133	97	13,593
Equity instruments	n/a	n/a	n/a	n/a	526	4,091	-	4,617
Debt securities	n/a	n/a	n/a	n/a	6,837	2,042	97	8,976
Investment property	-	135	1,543	1,678	-	151	2,204	2,355

(in millions of PLN)

Assets and liabilities measured at fair value	30 September 2018				31 December 2017 (restated data)			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Liabilities								
Derivatives	17	3,169	67	3,253	22	3,400	52	3,474
Liabilities to members of consolidated mutual funds	-	288	-	288	-	420	-	420
Investment contracts for the client's account and risk *(unit-linked)*	-	278	-	278	-	312	-	312
Liabilities on borrowed securities (short sale)	430	-	-	430	737	13	-	750

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period from 1 January to 30 September 2018	Investment financial assets measured at fair value through other comprehensive income		Investment financial assets measured at fair value through profit or loss		Derivatives – assets	Derivatives – liabilities	Investment properties
	Equity	Debt	Equity	Debt			
Balance at the beginning of the period – classification at the time of applying IFRS 9	**221**	**4,855**	**95**	**163**	**100**	**52**	**2,204**
Purchase/opening of the position	-	378	-	654	22	19	97
Reclassification from Level I	-	-	7	-	-	-	-
Reclassification from Level II	-	189	-	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	9
Profit or loss recognized in the profit and loss account as:	-	86	21	(4)	1	10	86
- net investment income	-	86	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	21	(4)	1	10	86
Profits or losses recognized in other comprehensive income	(3)	14	-	-	-	-	-
Sale and settlements	-	(567)	-	(587)	(14)	(14)	(10)
Reclassification to assets held for sale	-	-	-	-	-	-	(843)
Reclassification to Level II	-	(16)	-	(14)	-	-	-
Foreign exchange differences	2	-	2	-	-	-	-
Balance at the end of the period	**220**	**4,939**	**125**	**212**	**109**	**67**	**1,543**

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the year ended 31 December 2017	Investment financial assets available for sale		Investment financial assets measured at fair value through profit or loss – classified as such upon first recognition		Investment financial assets measured at fair value through profit or loss – held for trading – Debt	Derivatives – assets	Derivatives – liabilities	Investment properties
	Equity	Debt	Equity	Debt				
Balance at the beginning of the period	38	614	17	25	135	53	26	1,589
Purchase/opening of the position	6	-	21	-	290	32	23	63
Reclassification from Level II	-	662 [1)]	-	-	4	-	-	-
Reclassification from own properties and properties held for sale	-	-	-	-	-	-	-	830
Profit or loss recognized in the profit and loss account as:	-	31	2	2	3	37	19	(102)
- net investment income	-	31	5	-	-	(1)	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(3)	2	3	38	19	(102)
Profits or losses recognized in other comprehensive income	9	(26)	-	-	-	-	-	-
Sale and settlements	-	(437)	(22)	(2)	(380)	(22)	(16)	(4)
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	-	(196)
Foreign exchange translation differences	(1)	-	-	-	-	-	-	
Change in the composition of the Group	246	252	-	-	45	-	-	24
Other	-	17	-	-	-	-	-	-
Balance at the end of the period	**298**	**1,113**	**18**	**25**	**97**	**100**	**52**	**2,204**

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

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period from 1 January to 30 September 2017	Investment financial assets available for sale		Investment financial assets measured at fair value through profit or loss – classified as such upon first recognition		Investment financial assets measured at fair value through profit or loss – held for trading – Debt	Derivatives – assets	Derivatives – liabilities	Investment properties
	Equity	Debt	Equity	Debt				
Balance at the beginning of the period	38	614	17	25	135	53	26	1,589
Purchase/opening of the position	5	-	21	-	251	22	20	37
Profit or loss recognized in the profit and loss account as:	-	8	1	1	3	29	13	(78)
- net investment income	-	8	5	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	(4)	1	3	29	13	(78)
Profits or losses recognized in other comprehensive income	4	1	-	-	-	-	-	-
Sale and settlements	-	(425)	(21)	-	(213)	(21)	(16)	-
Reclassification to own properties and properties held for sale	-	-	-	-	-	-	-	(5)
Change in the composition of the Group	246	252	-	-	45	-	-	24
Balance at the end of the period	**293**	**450**	**18**	**26**	**221**	**83**	**43**	**1,567**

(in millions of PLN)

7.22.2.2. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2018				31 December 2017			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Loan receivables from clients measured at amortized cost	-	-	176,472	176,472	-	-	169,393	169,393
Debt securities measured at amortized cost	21,605	1,378	12,139	35,122	n/a	n/a	n/a	n/a
Entities measured by the equity method – EMC	-	16	-	16	-	20	-	20
Financial assets held to maturity	n/a	n/a	n/a	n/a	17,631	305	5,582	23,518
Debt securities classified in the loans portfolio	n/a	n/a	n/a	n/a	1	8,153	5,500	13,654
Buy-sell-back transactions	-	541	3,230	3,771	-	553	333	886
Term deposits with credit institutions	-	4,422	2,396	6,818	-	838	1,005	1,843
Loans	-	-	4,497	4,497	-	-	3,744	3,744
Liabilities								
Liabilities to banks	-	1,093	3,842	4,935	-	1,161	4,092	5,253
Liabilities to clients	-	-	199,172	199,172	-	-	201,605	201,605
Liabilities on the issue of own debt securities	-	4,803	6,843	11,646	-	2,808	6,627	9,435
Subordinated liabilities	-	1,268	4,090	5,358	-	1,257	4,108	5,365

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

In the 9-month period ended 30 September 2018, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

7.22.2.4. Reclassification between fair value hierarchy levels

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

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

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

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

In the 9-month period ended 30 September 2018, the following reclassifications of assets between fair value levels were made:

- treasury bonds for which active market quotations were available were reclassified from Level II to Level I;
- municipal bonds measured using market information about prices of comparable financial instruments and a derivative equity market transaction were reclassified from Level III to Level II because the unobservable factor (correlation) had no significant impact on measurement;
- corporate and municipal bonds were reclassified from Level II to Level III for which the impact exerted by the estimated credit parameters on the measurement was material and capital market derivatives for which the impact of the estimated parameter (correlation) exerted a significant impact on the measurement.

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

(in millions of PLN)

7.23 Receivables

Receivables – carrying amount	30 September 2018	31 December 2017
Receivables on direct insurance, including:	2,404	2,482
- receivables from policyholders	2,272	2,320
- receivables from insurance intermediaries	104	134
- other receivables	28	28
Reinsurance receivables	88	68
Other receivables	5,406	6,546
- receivables from disposal of securities and security deposits [1)]	3,356	4,658
- receivables on account of payment card settlements	1,021	716
- trade receivables	338	295
Receivables from the state budget, other than corporate income tax receivables	123	100
- receivables from debt factoring	7	68
- prevention settlements	46	58
- receivables from direct claims handling on behalf of other insurance undertakings	24	29
- disputed settlements	9	7
- receivables for acting as an emergency adjuster	14	12
- receivables on account of Corporate Income Tax	3	57
- receivables from purchase price allocation of the acquisition of Bank BPH's Core Business	-	94
- receivables from security and bid deposits	92	91
- other	373	361
Total receivables	**7,898**	**9,096**

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

As at 30 September 2018 and 31 December 2017, the fair value of receivables did not differ significantly from their carrying amount, primarily due to their short-term nature and the policy of recognizing impairment losses.

The amount of allowances for expected credit losses as at 30 September 2018 was PLN 793 million (impairment losses as at 31 December 2017 totaled PLN 649 million).

7.24 Assets held for sale

Assets held for sale by classification before transfer	30 September 2018	31 December 2017
Groups held for sale	**1,026**	**113**
Assets	1,074	116
Investment property	984	90
Receivables	12	1
Deferred tax assets	8	6
Cash and cash equivalents	66	17
Other assets	4	2
Liabilities related directly to assets classified as held for sale	48	3
Other assets held for sale	**117**	**201**
Property, plant and equipment	68	104
Investment property	49	97
Assets and groups of assets held for sale	**1,191**	**317**
Liabilities related directly to assets classified as held for sale	**48**	**3**

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

(in millions of PLN)

7.25 Technical provisions

Technical provisions	30 September 2018			31 December 2017		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**22,768**	**(1,237)**	**21,531**	**22,000**	**(1,250)**	**20,750**
Provision for unearned premiums	8,006	(407)	7,599	7,877	(466)	7,411
Provision for unexpired risk	11	-	11	37	(3)	34
Provisions for outstanding claims and benefits	8,882	(629)	8,253	8,301	(585)	7,716
- for reported claims	3,170	(562)	2,608	3,187	(533)	2,654
- for claims not reported (IBNR)	3,825	(57)	3,768	3,348	(41)	3,307
- for claims handling expenses	1,887	(10)	1,877	1,766	(11)	1,755
Provision for the capitalized value of annuities	5,861	(197)	5,664	5,776	(190)	5,586
Provisions for bonuses and discounts for insureds	8	(4)	4	9	(6)	3
Technical provisions in life insurance	**22,494**	**-**	**22,494**	**22,558**	**-**	**22,558**
Provision for unearned premiums	93	-	93	94	-	94
Life insurance provision	16,188	-	16,188	16,060	-	16,060
Provisions for outstanding claims and benefits	563	-	563	597	-	597
- for reported claims	139	-	139	153	-	153
- for claims not reported (IBNR)	417	-	417	437	-	437
- for claims handling expenses	7	-	7	7	-	7
Provisions for bonuses and discounts for insureds	4	-	4	5	-	5
Other technical provisions	263	-	263	287	-	287
Life insurance technical provisions if the policyholder bears the investment risk	5,383	-	5,383	5,515	-	5,515
Total technical provisions	**45,262**	**(1,237)**	**44,025**	**44,558**	**(1,250)**	**43,308**

The amount of impairment losses on reinsurers' share in technical provisions as at 30 September 2018 was PLN 7 million (as at 31 December 2017: PLN 12 million).

(in millions of PLN)

7.26 Other provisions

Movement in other provisions in the period 1 January – 30 September 2018	As at 31 December 2017	Application of IFRS 9	Balance at the beginning of the period	Increase	Utilization	Reversal	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	260	153	413	362	(25)	(356)	(42)	352
Provision for disputed claims and potential liabilities	82	-	82	40	(12)	(49)	-	61
Provision for penalties imposed by the Office of Competition and Consumer Protection 1)	57	-	57	-	-	-	17	74
Provision for restructuring expenses	63	-	63	-	(30)	(3)	-	30
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	9	-	-	-	-	9
Provision for the costs of closing the Graphtalk project	6	-	6	-	-	-	-	6
Other	20	-	20	28	(6)	(1)	-	41
Total other provisions	**497**	**153**	**650**	**430**	**(73)**	**(409)**	**(25)**	**573**

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

(in millions of PLN)

Movement in other provisions in the period 1 January - 30 September 2017 (restated data)	Balance at the beginning of the period	Increase	Utilization	Reversal	Business combinations	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	18	53	-	(34)	215	-	252
Provision for disputed claims and potential liabilities	11	4	(4)	(2)	55	2	66
Provision for penalties imposed by the Office of Competition and Consumer Protection [1]	58	-	-	(1)	-	-	57
Provision for restructuring expenses	252	61	(169)	(28)	-	-	116
Provision for PTE PZU's reimbursement of undue fees to the Social Insurance Institution	9	-	-	-	-	-	9
Provision for the costs of closing the Graphtalk project	6	-	-	-	-	-	6
Other	13	16	(1)	(3)	24	(1)	48
Total other provisions	**367**	**134**	**(174)**	**(68)**	**294**	**1**	**554**

[1] The main component of the line item entitled "Provision for penalties imposed by the Office of Competition and Consumer Protection" is explained in section 22.2.

Provisions for guarantees and sureties given

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

7.27 Financial liabilities

Financial liabilities	30 September 2018	31 December 2017 (restated)
Financial liabilities measured at fair value	**4,249**	**4,956**
Derivatives held for trading	2,365	2,606
Cash flow hedge derivatives	754	682
Fair value hedge derivatives	134	186
Liabilities on borrowed securities (short sale)	430	750
Investment contracts for the client's account and risk (unit-linked)	278	312
Liabilities to members of consolidated mutual funds	288	420
Financial liabilities measured at amortized cost	**222,042**	**219,594**
Liabilities to banks	4,973	5,323
Current deposits	656	996
One-day deposits	432	372
Term deposits	48	311
Loans received	3,405	3,380
Other liabilities	432	264
Liabilities to clients	198,968	198,163
Current deposits	116,152	122,956
Term deposits	81,965	74,453
Other liabilities	851	754
Liabilities on the issue of own debt securities	11,566	9,610
Subordinated liabilities	5,314	5,319
Liabilities on account of repurchase transactions	1,188	1,167
Investment contracts with guaranteed and fixed terms and conditions	-	1
Finance lease liabilities	33	11
Total financial liabilities	**226,291**	**224,550**

7.27.1. Subordinated liabilities

	Par value (in millions)	Currency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 September 2018 (in PLN m)	Carrying amount 31 December 2017 (in PLN m)
Liabilities classified as PZU's own funds						
Subordinated bonds – PZU	2,250	PLN	WIBOR 6M + margin	30 June 2017 29 July 2027	2,258	2,285
Liabilities classified as Pekao's own funds						
Subordinated bonds – Pekao	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,267	1,257
Liabilities classified as Alior Bank's own funds						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	43	42
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	222	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	193	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	6 December 2015 6 December 2021	149	147
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	612	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	69	68
Meritum Bank series C bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	82	80
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	43	43
P1A series bonds	150	PLN	WIBOR 6M + margin	27 April 2016 16 May 2022	153	150
P1B series bonds	70	PLN	WIBOR 6M + margin	29 April 2016 16 May 2024	71	70
P2A series bonds	150	PLN	WIBOR 6M + margin	14 December 2017 29 December 2025	152	151
Subordinated liabilities					**5,314**	**5,319**

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

7.27.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	**30 September 2018**	**31 December 2017** (restated)
Bonds of PZU Finance AB (publ.)	3,637	3,478
Alior Bank series J bonds	251	253
Pekao bonds	2,067	90
Certificates of deposit	4,058	4,541
Covered bonds	1,553	1,248
Liabilities on the issue of own debt securities	**11,566**	**9,610**

(in millions of PLN)

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

Bonds classified as measured at amortized cost

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

7.28 Other liabilities

Other liabilities	30 September 2018	31 December 2017 (restated)
Accrued expenses	**1,376**	**1,462**
Accrued expenses of agency commissions	329	336
Accrued sales commission expenses in group insurance	2	8
Accrued payroll expenses	166	160
Accrued reinsurance expenses	212	367
Accrued employee bonuses	360	320
Other	307	271
Deferred revenue	**311**	**354**
Other liabilities	**9,184**	**7,280**
Liabilities due under transactions on financial instruments	1,678	1,772
Liabilities to banks for payment documents cleared in interbank clearing systems	1,600	2,125
Liabilities on direct insurance	838	840
Liabilities on account of payment card settlements	831	437
Regulatory settlements	147	151
Liabilities for contributions to the Bank Guarantee Fund	151	80
Reinsurance liabilities	201	140
Estimated non-insurance liabilities	59	126
Liabilities to employees	149	163
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	103	121
Trade liabilities	186	320
Current income tax liabilities	586	421
Liabilities to the state budget other than for income tax	106	110
Liabilities on account of donations	25	28
Liabilities on account of non-market lease contracts	7	14
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	15	17
Insurance Indemnity Fund	14	16
Liabilities for direct claims handling	11	14
Liabilities to PZU shareholders for dividends	2,161	3
Other	316	382
Other liabilities, total	**10,871**	**9,096**

(in millions of PLN)

8. Financial assets securing liabilities

Financial assets pledged as collateral for liabilities and contingent liabilities	30 September 2018	31 December 2017
Carrying amount of financial assets pledged as collateral for liabilities	9,703	10,421
Repurchase transactions	1,044	1,166
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,081	1,348
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	85	44
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	133	73
Lombard and technical credit	4,451	4,697
Other loans	591	652
Issue of covered bonds	1,500	1,577
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	51	52
Derivative transactions	767	812
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**9,703**	**10,421**

9. Contingent assets and liabilities

Contingent assets and liabilities	30 September 2018	31 December 2017
Contingent assets, including:	5	6
- guarantees and sureties received	5	6
Contingent liabilities	58,738	58,978
- for renewable limits in settlement accounts and credit cards	13,461	14,536
- for loans in tranches	29,375	29,766
- guarantees and sureties given	8,096	7,574
- disputed insurance claims	583	711
- other disputed claims	213	212
- other, including:	7,010	6,179
- guaranteeing securities issues	3,767	3,492
- factoring	1,477	899
- intra-day limit	856	844
- letters of credit and commitment letters	785	818
- potential liabilities under loan agreements concluded by the Armatura Group	33	30

10. Commentary to the condensed interim consolidated financial statements

In the period of 9 months ended 30 September 2018, gross written premium was PLN 17,258 million compared to PLN 16,933 million in the corresponding period of the previous year (+1.9%). The increase in sales applied above all to the following:

- motor insurance in the mass and corporate client segments (+PLN 148 million) due to an increase in the average premium along with a decrease in the number of policies;
- insurance against fire and other damage to property in the corporate client segment (+PLN 118 million) following the execution of several contracts with high unit values;
- growth of sales in foreign companies (+PLN 164 million), mainly motor insurance in the Baltic states segment;
- growth of the group health product portfolio.

The increases have been partially offset by the lower premiums in the individual insurance segment (-PLN -189 million), which was driven mainly by lower contributions to unit-linked accounts in the bancassurance channel.

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) in 3 quarters of 2018 and 3 quarters of 2017 were PLN 7,994 million and PLN 5,828 million, respectively. Investment income from deposits in the banking business increased due to the consolidation of Pekao, while the investment result without banking activity decreased.

Income on investing activity, excluding banking business, fell mainly due to the worse performance achieved in listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 7.5% in the first 3 quarters of 2018 compared to an increase of 24.2% in the corresponding period of the previous year.

Net claims and benefits (including the movement in technical provisions) were PLN 10,984 million, or 2.4% less than in the corresponding period of the previous year. The following factors contributed to the decline in the category of net claims and benefits:

- in life insurance, a negative investment result on most unit-linked product portfolios, compared with high, positive results achieved last year and lower client deposits to accounts in individual unit-linked products in the bancassurance channel;
- in insurance against fire and other damage to property, a lower level of weather-related claims (severe wind gust, torrential rain).

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

In the first 3 quarters of 2018, acquisition expenses rose by PLN 158 million compared to the corresponding period of the previous year, driven mainly by an increase in direct acquisition expenses in the mass and corporate client segments, which followed from the growing portfolio and the change in the product mix.

PZU Group's administrative expenses in the first 3 quarters of 2018 were PLN 4,935 million compared to PLN 3,628 million in the corresponding period of 2017, i.e. went up 36.0% from the previous year. The increase resulted mainly from commencing the consolidation of Pekao in June 2017. Administrative expenses of the banking segment rose by PLN 1,295 million y/y. At the same time, administrative expenses in the insurance activity segments in Poland were PLN 25 million higher than in the corresponding period of the previous year, driven mainly by higher personnel costs pressured by the clearly increasing signs of salary pressures on the market along with continuously maintained cost discipline in non-personnel cost areas of both ongoing business and project activities.

In the 3 quarters of 2018, the balance of other operating income and expenses was negative and stood at PLN 1,812 million, compared to the balance in 2017, which was also negative at the level of PLN 1,135 million. The change resulted among others from a higher levy on financial institutions and an increase in Bank Guarantee Fund charges. The PZU Group's liabilities on account of the levy on financial institutions (on both the insurance and banking business) in the first 3 quarters of 2018 was PLN 816 million vs. PLN 554 million in the corresponding period of 2017, while the BFG charges rose from PLN 86 million to PLN 324 million (in both cases due to the consolidation of Pekao).

Interest expenses in the first 3 quarters of 2018 amounted to PLN 1,508 million and were PLN 638 million higher than in the corresponding period of the previous year. The increase pertained mainly to interest earned on term deposits and current on banking activity and interest on own debt securities issued, primarily in connection with the issue of subordinated bonds by PZU in the amount of PLN 2,250 million in June 2017.

Operating profit after the first 3 quarters of 2018 was PLN 5,152 million, up PLN 1,385 million (+36.8%) compared to the result for the corresponding period of the previous year. The movement in operating profit was caused in particular by:

- higher result of the banking segment following the June 2017 consolidation of Pekao (+PLN +1,153 million) and an improvement in Alior Bank's result (+PLN 261 million) in connection with high sales of credit products supported by positive economic conditions;
- higher profitability in the mass insurance segment compared to the corresponding period of 2017 (+PLN 358 million), due to the higher result of the non-motor insurance portfolio connected to the lower level of weather-related claims and the motor own damage portfolio, slightly offset by the decline in the result on motor TPL insurance – as a result of remeasurement of the provision for claims for general damages for pain caused by an accident victim being in a vegetative state;
- higher result of the corporate insurance segment (+PLN 152 million) driven by an improved profitability of the portfolio of insurance against catastrophic and other material losses (much lower claims with high unit values and claims caused by weather conditions) and MOD insurance;

- lower investment income as a result of a decrease in the result on listed equities in connection with worse economic conditions on the WSE, partly offset by the better performance of the Polish treasury bond portfolio.
- increased profitability in group and individually continued insurance (+PLN 24 million) as a result of the constantly growing insurance portfolio, improvement in the loss ratio in protection products compared to last year and a change in the mix of individually continued products with a lower standalone expense for provisioning the future disbursement of benefits.

Net profit grew in comparison to the first 3 quarters of 2017 by PLN 1,003 million (+34.6%) to PLN 3,902 million. Net profit attributable to the parent company's shareholders was PLN 2,432 million compared to PLN 2,121 million in 2017 (up 14.7%).

As at 30 September 2018, consolidated equity according to IFRS was PLN 36,012 million compared to PLN 36,344 million as at 30 September 2017. The decrease pertained predominantly to non-controlling interests due to the disbursement of a dividend by Pekao. The return on equity (ROE[2]) of the parent company for the period from 1 January 2018 to 30 September 2018 was 22.9% making it 1.8 p.p. higher than in the corresponding period of the previous year. In comparison with the consolidated equity as at 31 December 2017, equity decreased by PLN 1,548 million. The decline affected in particular non-controlling interests, which fell by PLN 1,118 million reaching PLN 21,843 million driven by the designation of PLN 2,074 million for a dividend payment by Pekao, where PLN 1,659 million of that was the dividend attributable to non-controlling interests, and the effect of the application of IFRS 9. Equity attributable to the parent company's shareholders fell by PLN 430 million compared to the end of the previous year – as an effect of the distribution of the 2017 profit by PZU, including the allocation of PLN 2,159 million as a dividend and the effect of the application of IFRS 9. These factors were partially offset by the net result attributed to the parent company earned in the first 3 quarters of 2018.

Total equity and liabilities as at 30 September 2018 increased compared to 31 December 2017 by PLN 2,659 million to PLN 320,117 million. The increase pertained mainly to the balance of other liabilities (+PLN 1,775 million) and financial liabilities (+PLN 1,741 million).

The investment portfolio[3] as at 30 September 2018 and 31 December 2017, excluding the impact of the banking business, was PLN 50,886 million and PLN 46,164 million, respectively. The PLN 4,722 million increase was related mainly to debt instruments. Loan receivables as at 30 September 2018 were PLN 177,992 million compared to PLN 169,457 million as at 31 December 2017.

The largest item of equity and liabilities at the end of the first 3 quarters of 2018 were financial liabilities, at 70.7%. Their balance reached PLN 226,291 million and included in particular liabilities to clients of PLN 198,968 million (predominantly by virtue of deposits held by Pekao SA and Alior Bank).

The value of technical provisions as at the end of Q3 2018 was PLN 45,262 million and accounted for 14.1% of total equity and liabilities. Compared to 31 December 2017, provisions rose by PLN 704 million. This change resulted primarily from the following:

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

11. Equity management

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

In accordance with the Policy, the PZU Group endeavors to do the following:

- manage capital effectively by optimizing the usage of capital from the PZU Group's perspective;

[2] Annualized ratio.

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

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

The capital management policy rests on the following principles:

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

The PZU Group and PZU dividend policy assumes that:

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

subject to the items below;

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

External capital requirements

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

Pursuant to art. 412 section 1 of the Insurance Activity Act, the PZU Group is obligated to prepare and disclose an annual solvency and financial condition report at the group level drafted in accordance with the principles of Solvency II. The 2017 report published on 14 June 2018 is available online at https://www.pzu.pl/relacje-inwestorskie/raporty. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking was subject to audit by an audit firm.

Irrespective of the foregoing, some PZU Group companies are required to comply with their own capital requirements imposed by the relevant legal regulations.

12. Segment reporting

12.1 Reportable segments

12.1.1. Key classification criterion

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

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

Segment	Accounting standards	Segment description	Aggregation criteria
Corporate insurance (non-life insurance)	PAS	Broad scope of property insurance products, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic entities by PZU, Link4, TUW PZUW.	Aggregation by similarity of products offered, similar client groups to which they are offered, distribution channels and operation in the same regulatory environment.
Mass insurance (non-life insurance)	PAS	Broad scope of property, accident, TPL and motor insurance products offered to individual clients and entities in the small and medium enterprise sector by PZU and Link4.	As above.
Group and individually continued insurance (life insurance)	PAS	Group insurance addressed by PZU Życie to groups of employees and other formal groups (e.g. trade unions), under which persons under a legal relationship with the policyholder (e.g. employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Individual insurance (life insurance)	PAS	Insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance.	No aggregation
Investments	PAS	The segment includes: 1. investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in PZU, Link4 and PZU Życie plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments; 2. income from other free funds in the PZU Group (in particular consolidated mutual funds).	The aggregation was effected because of the similar surplus-based nature of the revenues
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.

Segment	Accounting standards	Segment description	Aggregation criteria
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

12.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

12.2 Inter-segment settlements

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

12.3 Segment's measure of profit

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

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

12.4 Accounting policies applied according to PAS

12.4.1. PZU

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

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

12.4.2. PZU Życie

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

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

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

12.5 Simplifications in the segmental note

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

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

(in millions of PLN)

12.6 Quantitative data

Corporate insurance (non-life insurance)	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Gross written premium – external	532	2,052	512	1,891
Gross written premium – cross-segment	1	2	1	3
Gross written premiums	**533**	**2,054**	**513**	**1,894**
Movement in provision for unearned premiums and gross provision for unexpired risks	169	3	104	(143)
Gross earned premium	**702**	**2,057**	**617**	**1,751**
Reinsurers' share in gross written premium	(34)	(324)	6	(244)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(82)	12	(105)	(22)
Net earned premium	**586**	**1,745**	**518**	**1,485**
Investment income, including:	23	86	30	70
external operations	23	86	30	70
intersegment operations	-	-	-	-
Other net technical income	17	46	19	55
Income	**626**	**1,877**	**567**	**1,610**
Net insurance claims and benefits	(370)	(1,091)	(406)	(978)
Acquisition expenses	(119)	(352)	(108)	(312)
Administrative expenses	(29)	(93)	(32)	(96)
Reinsurance commissions and profit participation	9	26	6	19
Other	(9)	(42)	(21)	(70)
Insurance result	**108**	**325**	**6**	**173**

Mass insurance (non-life insurance)	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Gross written premium – external	2,349	7,676	2,289	7,506
Gross written premium – cross-segment	3	26	1	2
Gross written premiums	**2,352**	**7,702**	**2,290**	**7,508**
Movement in provision for unearned premiums and gross provision for unexpired risks	309	5	237	(419)
Gross earned premium	**2,661**	**7,707**	**2,527**	**7,089**
Reinsurers' share in gross written premium	(1)	(27)	6	(18)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(34)	(70)	(23)	(45)
Net earned premium	**2,626**	**7,610**	**2,510**	**7,026**
Investment income, including:	110	393	142	370
external operations	110	393	142	370
intersegment operations	-	-	-	-
Other net technical income	17	77	37	125
Income	**2,753**	**8,080**	**2,689**	**7,521**
Net insurance claims and benefits	(1,563)	(4,698)	(1,796)	(4,586)
Acquisition expenses	(474)	(1,379)	(438)	(1,285)
Administrative expenses	(141)	(429)	(142)	(422)
Reinsurance commissions and profit participation	(1)	(2)	(5)	(5)
Other	(83)	(263)	(81)	(272)
Insurance result	**491**	**1,309**	**227**	**951**

(in millions of PLN)

Group and individually continued insurance (life insurance)	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017**	**1 January – 30 September 2017**
Gross written premium – external	1,719	5,163	1,716	5,145
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,719**	**5,163**	**1,716**	**5,145**
Movement in the provision for unearned premiums	-	(1)	-	(3)
Gross earned premium	**1,719**	**5,162**	**1,716**	**5,142**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**1,719**	**5,162**	**1,716**	**5,142**
Investment income, including:	165	426	182	575
external operations	165	426	182	575
intersegment operations	-	-	-	-
Other net technical income	-	1	-	1
Income	**1,884**	**5,589**	**1,898**	**5,718**
Net insurance claims and benefits and movement in other net technical provisions	(1,198)	(3,708)	(1,215)	(3,863)
Acquisition expenses	(84)	(256)	(81)	(248)
Administrative expenses	(141)	(438)	(134)	(426)
Other	(10)	(32)	(19)	(50)
Insurance result	**451**	**1,155**	**449**	**1,131**

Individual insurance (life insurance)	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017**	**1 January – 30 September 2017**
Gross written premium – external	318	1,007	404	1,196
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**318**	**1,007**	**404**	**1,196**
Movement in the provision for unearned premiums	1	3	1	2
Gross earned premium	**319**	**1,010**	**405**	**1,198**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	-	-	-	-
Net earned premium	**319**	**1,010**	**405**	**1,198**
Investment income, including:	42	125	118	369
external operations	42	125	118	369
intersegment operations	-	-	-	-
Income	**361**	**1,135**	**523**	**1,567**
Net insurance claims and benefits and movement in other net technical provisions	(257)	(828)	(426)	(1,276)
Acquisition expenses	(30)	(95)	(36)	(103)
Administrative expenses	(14)	(51)	(12)	(42)
Other	2	(1)	-	(2)
Insurance result	**62**	**160**	**49**	**144**

(in millions of PLN)

Investments	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Investment income, including:	65	1,154	205	1,889
- external operations	(351)	(668)	182	308
- intersegment operations	416	1,822	23	1,581
Operating result	**65**	**1,154**	**205**	**1,889**

Banking activity	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Revenue from commissions and fees	797	2,329	754	1,339
Investment income, including:	2,395	7,088	2,207	4,059
- external operations	2,395	7,088	2,207	4,059
- intersegment operations	-	-	-	-
Income	**3,192**	**9,417**	**2,961**	**5,398**
Fee and commission expenses	(197)	(548)	(175)	(354)
Interest expenses	(473)	(1,400)	(418)	(804)
Administrative expenses	(1,216)	(3,756)	(1,225)	(2,461)
Other	(265)	(899)	(195)	(379)
Operating result	**1,041**	**2,814**	**948**	**1,400**

Pension insurance	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Investment income, including:	1	4	1	4
external operations	1	4	1	4
intersegment operations	-	-	-	-
Other income	31	108	30	91
Income	**32**	**112**	**31**	**95**
Administrative expenses	(12)	(29)	(11)	(35)
Other	-	(3)	-	(1)
Operating result	**20**	**80**	**20**	**59**

(in millions of PLN)

Insurance - Baltic States	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Gross written premium – external	390	1,177	355	1,028
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**390**	**1,177**	**355**	**1,028**
Movement in provision for unearned premiums and gross provision for unexpired risks	4	(50)	(17)	(89)
Gross earned premium	**394**	**1,127**	**338**	**939**
Reinsurers' share in gross written premium	(8)	(37)	(8)	(30)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(5)	1	(4)	1
Net earned premium	**381**	**1,091**	**326**	**910**
Investment income, including:	3	8	6	15
external operations	3	8	6	15
intersegment operations	-	-	-	-
Income	**384**	**1,099**	**332**	**925**
Net insurance claims and benefits paid	(230)	(664)	(200)	(566)
Acquisition expenses	(81)	(234)	(71)	(201)
Administrative expenses	(33)	(93)	(28)	(83)
Other	(1)	1	1	1
Insurance result	**39**	**109**	**34**	**76**

Insurance - Ukraine	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
Gross written premium – external	69	183	53	168
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**69**	**183**	**53**	**168**
Movement in provision for unearned premiums and gross provision for unexpired risks	2	(2)	-	(14)
Gross earned premium	**71**	**181**	**53**	**154**
Reinsurers' share in gross written premium	(25)	(67)	(16)	(67)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(5)	(4)	(5)	4
Net earned premium	**41**	**110**	**32**	**91**
Investment income, including:	7	13	5	12
external operations	7	13	5	12
intersegment operations	-	-	-	-
Income	**48**	**123**	**37**	**103**
Net insurance claims and benefits paid	(17)	(42)	(15)	(41)
Acquisition expenses	(20)	(60)	(18)	(50)
Administrative expenses	(7)	(18)	(5)	(17)
Other	7	17	5	16
Insurance result	**11**	**20**	**4**	**11**

(in millions of PLN)

Investment contracts	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017**	**1 January – 30 September 2017**
Gross written premium	7	27	9	30
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**7**	**27**	**9**	**30**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premium	**7**	**27**	**9**	**30**
Investment income, including:	(4)	(11)	6	27
external operations	(4)	(11)	6	27
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**3**	**16**	**15**	**57**
Net insurance claims and benefits and movement in other net technical provisions	(1)	(8)	(9)	(47)
Acquisition expenses	(1)	(1)	-	(1)
Administrative expenses	(1)	(4)	(3)	(6)
Operating result	**-**	**3**	**3**	**3**

Other segments	**1 July - 30 September 2018**	**1 January – 30 September 2018**	**1 July - 30 September 2017**	**1 January – 30 September 2017**
Investment income, including:	-	12	1	5
- external operations	-	12	1	5
- intersegment operations	-	-	-	-
Other income	255	747	238	692
Income	**255**	**759**	**239**	**697**
Expenses	(260)	(799)	(258)	(742)
Other	7	20	3	26
Operating result	**2**	**(20)**	**(16)**	**(19)**

(in millions of PLN)

Reconciliations 1 January 2018 – 30 September 2018	Net earned premium	Investment income [2]	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,745	86	(1,091)	(352)	(93)	325
Mass insurance	7,610	393	(4,698)	(1,379)	(429)	1,309
Group and individually continued insurance	5,162	426	(3,708)	(256)	(438)	1,155
Individual insurance	1,010	125	(828)	(95)	(51)	160
Investments	-	1,154	-	-	-	1,154
Banking activity	-	7,088	-	-	(3,756)	2,814
Pension insurance	-	4	-	(3)	(29)	80
Insurance - Baltic States	1,091	8	(664)	(234)	(93)	109
Insurance - Ukraine	110	13	(42)	(60)	(18)	20
Investment contracts	27	(11)	(8)	(1)	(4)	3
Other segments	-	12	-	-	-	(20)
Total segments	**16,755**	**9,298**	**(11,039)**	**(2,380)**	**(4,911)**	**7,109**
Presentation of investment contracts	(27)	16	8	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	69	-	-	-	69
Measurement of properties	-	(25)	-	-	(1)	(30)
Elimination of the equalization provision and prevention fund	-	-		-	-	(18)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(7)	(1,364)	51	80	(13)	(1,964)
Consolidated data	**16,721**	**7,994**	**(10,984)**	**(2,300)**	**(4,935)**	**5,152**

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

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

(in millions of PLN)

Reconciliations 1 January 2017 – 30 September 2017 (restated)	Net earned premium	Investment income [2]	Net insurance claims and benefits	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,485	70	(978)	(312)	(96)	173
Mass insurance	7,026	370	(4,586)	(1,285)	(422)	951
Group and individually continued insurance	5,142	575	(3,863)	(248)	(426)	1,131
Individual insurance	1,198	369	(1,276)	(103)	(42)	144
Investments	-	1,889	-	-	-	1,889
Banking activity	-	4,059	-	-	(2,461)	1,400
Pension insurance	-	4	-	(1)	(35)	59
Insurance - Baltic States	910	15	(566)	(201)	(83)	76
Insurance - Ukraine	91	12	(41)	(50)	(17)	11
Investment contracts	30	27	(47)	(1)	(6)	3
Other segments	-	5	-	-	-	(19)
Total segments	**15,882**	**7,395**	**(11,357)**	**(2,201)**	**(3,588)**	**5,818**
Presentation of investment contracts	(30)	(21)	47	-	-	-
Estimated salvage and subrogation	-	-	(2)	-	-	(2)
Valuation of equity instruments	-	17	-	-	-	17
Measurement of properties	-	(5)	-	-	-	(8)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	-
Allowances to the Company Social Benefits Fund and actuarial costs	-	-	-	-	(20)	(20)
Consolidation adjustments [1]	(3)	(1,558)	60	59	(20)	(2,038)
Consolidated data	**15,849**	**5,828**	**(11,252)**	**(2,142)**	**(3,628)**	**3,767**

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

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

Geographic breakdown 1 January – 30 September 2018 and as at 30 September 2018	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	15,898	1,177	183	-	17,258
Gross written premium – cross-segment	21	-	-	(21)	-
Revenue from commissions and fees	2,526	-	-	-	2,526
Investment income [1]	7,973	8	13	-	7,994
Non-current assets, other than financial assets [2]	6,016	236	4	-	6,256
Deferred tax assets	2,207	-	2	-	2,209
Assets	318,501	2,620	326	(1,330)	320,117

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

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

Geographic breakdown 31 December 2017 (restated)	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Non-current assets, other than financial assets [1]	6,486	240	4	-	6,730
Deferred tax assets	1,588	-	2	-	1,590
Assets	316,388	2,190	267	(1,387)	317,458

[1] Applies to intangible assets and property, plant and equipment.

(in millions of PLN)

Geographic breakdown 1 January - 30 September 2017 (restated)	Poland	Baltic States	Ukraine	Not allocated (consolidation eliminations and other)	Consolidated value
Gross written premium – external	15,737	1,028	168	-	16,933
Gross written premium – cross-segment	-	-	-	-	-
Revenue from commissions and fees	1,487	-	-	-	1,487
Investment income [1]	5,801	15	12	-	5,828

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

12.7 Information on key customers

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

13. Commentary to segment reporting and investing activity

13.1 Corporate insurance – non-life insurance

In the first 3 quarters of 2018, in the corporate insurance segment, gross written premium grew significantly by PLN 160 million (+8.4% y/y) as compared to the first 3 quarters of 2017. The following factors were recorded concerning premiums:

- higher premium on insurance against fire and other damage to property and other TPL following the execution of several contracts (including long-term contracts) with high unit values and development of the medical entity insurance portfolio in TUW PZUW;
- higher sales in motor insurance (+3.6% y/y) offered to leasing companies and in fleet insurance (TPL insurance and a slight decrease of MOD insurance) as a consequence of the higher average premium and the lower number of insurance products;
- development of the accident insurance portfolio following from the extension of cooperation between TUW PZUW and its strategic partners, partly offset by a lower level of premiums on loans and insurance guarantees.

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	2,054	1,894	8.4%
Net earned premium	1,745	1,485	17.5%
Investment income	86	70	22.9%
Net insurance claims and benefits paid	(1,091)	(978)	11.6%
Acquisition expenses	(352)	(312)	12.8%
Administrative expenses	(93)	(96)	(3.1%)
Reinsurance commissions and profit-sharing	26	19	36.8%
Other	4	(15)	(126.7%)
Insurance result	**325**	**173**	**87.9%**
acquisition expenses ratio (including reinsurance commission)[1]	18.7%	19.7%	(1.0) p.p.
administrative expense ratio [1]	5.3%	6.5%	(1.2) p.p.
loss ratio [1]	62.5%	65.9%	(3.4) p.p.
combined ratio (COR) [1]	86.5%	92.1%	(5.6) p.p.

[1] ratios calculated using net earned premium

Net insurance claims and benefits surged 11.6% which with earned premium up by 17.5% signifies deterioration in the loss ratio by 3.4 percentage points. The decline of the loss ratio was recorded chiefly in:

- insurance against fire and other damage to property as a result of a smaller number of claims with a high unit value (in the corresponding period of 2017, several claims in inward reinsurance with members of the Group) and a lower level of weather-related claims (severe wind gust, torrential rain).
- MOD insurance, as a result of the net earned premium growth being much higher than the growth in claims and benefits, despite the observed increase in average payout; this effect was partly offset by a decline in profitability in the motor TPL group (impact of remeasurement of the provision for claims for general damages for the pain caused by the vegetative state of a relative injured in an accident and a higher value of annuity benefits);

These changes were partially offset by an increase in claims and benefits in general TPL insurance.

The increase in the income from investments allocated to the corporate insurance segment was 22.9% y/y, which was dictated by the increasing EUR exchange rate to PLN by 2.4%, compared to a 2.6% depreciation in the corresponding period of the previous year.

The PLN 40 million or 12.8% upswing in acquisition expenses in the corporate insurance segment compared to the first 3 quarters of 2017, which given the increase in net earned premium by 17.5% means an improvement in the acquisition expense ratio by 1.0 p.p. The factor determining the change in the level of acquisition expenses was to a large extent the development of the portfolio coupled with the change in the mix of sales channels and the portfolio structure.

Administrative expenses decreased 3.1%, which, given the fact that the earned premium went up 17.5%, translated into an improvement in the administrative expense ratio by 1.2 percentage points. The decline in the expense ratio was due to lower costs of project activity and current operations by consistently maintaining cost discipline.

After Q3 2018, the corporate insurance segment earned an insurance profit of PLN 325 million, which is 87.9% more than in the corresponding period last year. The increase in insurance profit was driven mainly by the improved profitability of the portfolio of insurance against catastrophic and other material losses (much lower claims with high unit values and damage caused by adverse weather conditions) and MOD insurance.

13.2 Mass insurance – non-life insurance

In the first 3 quarters of 2018, in the mass insurance segment, gross written premium increased by PLN 194 million (+2.6% y/y) compared to the corresponding period of 2017. This growth resulted primarily from:

- an increase in gross written premium in motor insurance (+2.0% y/y) as the outcome of the higher average premium with a simultaneous decline in the number of insurance products;
- incremental growth in the premium for fire insurance and other damage to property (+2.1% y/y), chiefly in residential insurance and small and medium-sized enterprise insurance; this effect was partly offset by lower sales of crop insurance and agricultural insurance due to the fierce competition on the market;
- higher written premium in the other TPL insurance group (+5.2% y/y) and ADD and other (6.9% y/y), mainly illness insurance and assistance.

(in millions of PLN)

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	7,702	7,508	2.6%
Net earned premium	7,610	7,026	8.3%
Investment income	393	370	6.2%
Net insurance claims and benefits paid	(4,698)	(4,586)	2.4%
Acquisition expenses	(1,379)	(1,285)	7.3%
Administrative expenses	(429)	(422)	1.7%
Reinsurance commissions and profit-sharing	(2)	(5)	(60.0%)
Other	(186)	(147)	26.5%
Insurance result	**1,309**	**951**	**37.6%**
acquisition expenses ratio (including reinsurance commission)[1)]	18.1%	18.4%	(0.3) p.p.
administrative expense ratio [1)]	5.6%	6.0%	(0.4) p.p.
loss ratio [1)]	61.7%	65.3%	(3.6) p.p.
combined ratio (COR) [1)]	85.5%	89.6%	(4.1) p.p.

[1)] ratios calculated using net earned premium

Net insurance claims and benefits in the 3 quarters ended 30 September 2018 rose 2.4%, which when coupled with net earned premium being up 8.3%, translates into the loss ratio declining by 3.6 percentage points.

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

- against fire and other damage to property, chiefly crop insurance, due to the lower number of damage claims caused by forces of nature (in the corresponding period, damage caused by gusty wind and torrential rain);
- motor insurance due to a much better loss ratio in Motor Own Damage insurance coupled with a slight change in TPL insurance – as a result of remeasurement of the provision for claims for general damages for pain caused by the vegetative state of a relative injured in an accident (Supreme Court ruling). After netting out the effect of movement in the provision for general damages, high profitability was maintained in motor TPL insurance and motor own damage insurance.

The increase in the income from investments allocated to the mass insurance segment was 6.2% y/y, which was dictated by the increasing EUR exchange rate to PLN by 2.4%, compared to a 2.6% depreciation in the corresponding period of the previous year.

After Q3 2018, acquisition expenses in the mass insurance segment reached PLN 1,379 million, up by PLN 94 million (+7.3%) from the corresponding period last year, which, considering the increase in the net earned premium by 8.3%, represented a 0.3 p.p. improvement in the acquisition expense ratio. The factor driving the change in the level of acquisition expenses was the higher level of direct acquisition expenses resulting from portfolio growth and a change in the mix of products and sales channels.

Administrative expenses increased by PLN 7 million (or 1.7%) compared to the first 3 quarters of 2017 as a result of the persistent cost discipline in non-personnel cost areas of both ongoing business and project activities and higher personnel costs in response to clear signs of wage pressure on market.

The increase in operating profit in the mass insurance segment by PLN 358 million (+37.6%) compared to the first 3 quarters of 2017 was chiefly attributable to the increase in profitability in non-motor insurance (a lower level of damage caused by adverse weather conditions) and MOD insurance slightly offset by a decrease in the result on motor TPL insurance (impact of remeasurement of the provision for claims for general damages).

13.3 Group and individually continued insurance – life insurance

Gross written premium was PLN 18 million (0.3%) higher than in the corresponding period last, which resulted primarily from:

- acquiring more contracts in group health insurance products or individually continued products (new clients in outpatient insurance and sales of different options of the medicine product). At the end of September 2018, PZU Życie had more than 1.7 million in force contracts of this type. A new rider to continued insurance was launched under the name “PZU Uraz ortopedyczny [PZU orthopedic injury]”. In case of an accidental orthopedic injury, e.g. fracture, dislocation or sprain, the insured will be provided assistance of a physiotherapist and an orthopedist. The insured will also be able to use rehabilitation procedures in private medical centers across Poland. The insurance garnered excellent response from the clients – three out of four clients enrolling in individual continuation selected this rider as well;

(in millions of PLN)

- active up-selling of riders in other individually continued insurance products, including in particular together with the offering of the basic agreement in PZU branches and increase of sums insured during the terms of the agreements;

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

Data from the profit and loss account – group and individually continued insurance	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	5,163	5,145	0.3%
Group insurance (periodic premium)	3,661	3,660	0.0%
Individually continued insurance (periodic premium)	1,502	1,485	1.1%
Net earned premium	5,162	5,142	0.4%
Investment income	426	575	(25.9)%
Net insurance claims and benefits and movement in other net technical provisions	(3,708)	(3,863)	(4.0)%
Acquisition expenses	(256)	(248)	3.2%
Administrative expenses	(438)	(426)	2.8%
Other	(31)	(49)	(36.7)%
Insurance result	**1,155**	**1,131**	**2.1%**
Insurance result net of the conversion effect	**1,142**	**1,101**	**3.7%**
acquisition expense ratio [1)]	5.0%	4.8%	0.2 p.p.
administrative expense ratio [1)]	8.5%	8.3%	0.2 p.p.
insurance margin net of the conversion effect [1)]	22.1%	21.4%	0.7 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the group and individually continued insurance segment, investment income fell PLN 149 million mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 7.5% compared to a 24.2% increase in the corresponding period of last year. Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

Insurance claims and benefits and the movement in other net technical provisions totaled PLN 3,708 million, which signifies a y/y decline of PLN 155 million, or 4.0%. This change was driven by the following factor in particular:

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

These effects have been partially offset by the slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance exerted an influence on the size of the provisions. As a result of the conversion, provisions were released for PLN 13 million, some PLN 17 million less than in the corresponding period of 2017. Additionally, the level of medical benefits under health products is increasing following the dynamic growth of this portfolio and a unusually severe influenza season at the end of 2017 and the beginning of 2018.

Acquisition expenses in the group and individually continued insurance segment in the first 9 months of 2018 were PLN 256 million, increasing by PLN 8 million (3.2%) compared to the corresponding period of last year. The factor driving these expenses was the increasing remuneration for insurance intermediaries, especially for selling health products as the portfolio increased, and also the cost of communication mailed to clients, (mainly offers of individual continuation riders).

(in millions of PLN)

In the first 3 quarters of 2018, administrative expenses amounted to PLN 438 million. The PLN 12 million increase (by 2.8%) was caused mainly by expenditures related to organizational changes in sales divisions and an increase in personnel costs caused by salary pressures on the market.

Operating profit in the group and individually continued insurance segment after Q3 2018 climbed compared to the corresponding period of 2017 by PLN 24 million (2.1%) to PLN 1,155 million. Operating profit after excluding the effect related to conversion of long-term contracts into renewable contracts in type P group insurance improved by PLN 41 million y/y (3.7%). This was driven mainly by the continued growth of the insurance portfolio and the lower than last year increase in mathematical provisions in continued products as a result of the previous changes in indexation principles and the share of “old” and “new” continuation both among the persons joining and remaining in the insured portfolio and also by the lower level of benefits in the group protection products portfolio this year.

13.4 Individual insurance - life insurance

The y/y decline in gross written premium compared to the first 3 quarters of 2017 by PLN 189 million (15.8%) down to PLN 1,007 million resulted chiefly from lower contributions to unit-linked accounts in unit-linked products offered jointly with banks. At the same time, positive factors were also at play, such as:

- constantly rising level of premiums on protection products in endowments and term insurance offered in own channels – the level of sales exceeds the value of write-offs in the existing portfolio;
- growth of the insured portfolio in protection products in the bancassurance channel.

Data from the profit and loss account – individual insurance	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	1,007	1,196	(15.8)%
Net earned premium	1,010	1,198	(15.7)%
Investment income	125	369	(66.1)%
Net insurance claims and benefits and movement in other net technical provisions	(828)	(1,276)	(35.1)%
Acquisition expenses	(95)	(103)	(7.8)%
Administrative expenses	(51)	(42)	21.4%
Other	(1)	(2)	(50.0)%
Insurance result	**160**	**144**	**11.1%**
acquisition expense ratio [1)]	9.4%	8.6%	0.8 p.p.
administrative expense ratio [1)]	5.1%	3.5%	1.6 p.p.
insurance margin [1)]	15.9%	12.0%	3.9 p.p.

[1)] Ratios calculated using gross written premium

The investment result consists of income allocated using transfer prices and income on investment products. In the individual insurance segment, it fell PLN 244 million y/y mainly due to the lower income on unit-linked products as a result of worse conditions on the equity market – the WIG index fell by 7.5% compared to 24.2% in the corresponding period of last year. At the same time, the segment’s income from the management fee charged on assets accumulated in unit-linked products increased by PLN 5 million y/y (following an increase in the assets). Income allocated according to transfer prices is subject to slight fluctuation and its level depends largely on the level of technical provisions in protection insurance products.

Net insurance claims and benefits together with the movement in other net technical provisions were PLN 828 million, reflecting an decrease in costs by PLN 448 million compared to the corresponding period of 2017. This was driven mainly by the negative investment result on most unit-linked product portfolios in this period, compared with high, positive results achieved last year. In the products offered in the cooperation with banks, it additionally resulted from lower client contributions to the accounts. From the operational point of view, these factors are not significant – they are balanced by other relevant items of the profit and loss account.

(in millions of PLN)

In the first 3 quarters of 2018, acquisition expenses decreased in the individual insurance segment by PLN 8 million, or 7.8%, to PLN 95 million. Lower commissions on the sale of unit-linked products in the bancassurance channel (due to lower sales) were partly offset by the increasing costs of sales support and remuneration to intermediaries for selling protection products, in the latter case also in the bancassurance channel.

Administrative expenses during the 9 months of 2018 rose to PLN 51 million, or PLN 9 million compared to last year. This was influenced by the strategic investments in the exclusive sales network aimed at increasing sales in this segment and, to a smaller extent, an increasing level of remuneration for the handling of unit-linked products in the bancassurance channel (growing assets of such products).

The segment's operating result rose in comparison to last year by PLN 16 million to PLN 160 million mainly due to the increasing management fee and lower acquisition expenses in unit-linked products. Another factor contributing to the improvement in the profit margin was an increased share of protection products in revenues, since they generate much higher margins.

13.5 Bank segment

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

After the first 3 quarters of 2018, the banking activity segment generated PLN 2,814 million in operating profit (without amortization of intangible assets acquired as part of the bank acquisition transactions), representing an increase by PLN 1,414 million compared to the first 3 quarters of 2017. Due to the consolidation of Pekao, one of the largest banks in the Central and Eastern Europe, all the items of the profit and loss account and of the statement of financial position in 2018 are much higher than they were in the previous year.

Banking activity	1 January – 30 September 2018	1 January – 30 September 2017	% change
Revenues and expenses on account of fees and commissions	1,781	985	80.8%
Investment income	7,088	4,059	74.6%
Interest expenses	(1,400)	(804)	74.1%
Administrative expenses	(3,756)	(2,461)	52.6%
Other	(899)	(379)	137.2%
Total	2,814	1,400	101.0%

In 2018, Pekao contributed PLN 2,071 million to the operating profit (without amortization of intangible assets acquired as part of the Pekao S.A. acquisition transaction) in the "Banking activity" segment, while Alior Bank's contribution was PLN 743 million.

Investment income, which increased to PLN 7,088 million in the first 3 quarters of 2018 (or 74.6% y/y), is the key component of the segment's revenue. Investment income consists of: interest income, dividend revenue, trading result and result on impairment charges. In the first 3 quarters of 2018, very high sales of credit products were recorded in Pekao and Alior Bank, among others thanks to the favorable economic climate and the low level of interest rates.

Banks increased their net interest income (interest income less interest expenses) mainly be increasing the volume of loans to their customers. At the end of Q3 2018, the customer loan portfolio in both banks increased by 4.8% compared to the end of 2017.

The profitability of banks in the PZU Group after Q3 2018 was measured by the net interest margin ratio and stood at 2.8% for Pekao and 4.6% for Alior Bank. The difference in the level of the indicators results in particular from the structure of the loan receivables portfolio.

The net fee and commission income in the banking activity segment was PLN 1,781 million, increasing by PLN 796 million y/y. In addition to the consolidation of the newly-acquired Bank Pekao, the improvement in this line item was boosted, as in the case of net interest income, by an increase in the sales of loans. Administrative expenses in the segment amounted to PLN 3,756 million, with Pekao contributing PLN 2,549 million and Alior Bank PLN 1,207 million. In the first 3 quarters of 2018, Alior Bank reduced its personnel costs, which resulted from, among others, lower current operating expenses and project-related expenses.

Other contributors to the operating result included also other operating income and expenses, which consist mainly of BFG charges (PLN 324 million) and levy on other financial institutions (PLN 573 million).

As a result, the Cost/Income* ratio stood at 43% for both banks. The ratio was 45% for Pekao and 41% for Alior Bank.

13.6 Investments

Net investment result and interest expenses

After the first 3 quarters of 2018, the net investment result[4], including interest expenses, was PLN 6,486 million, compared to PLN 4,958 million in the corresponding period of 2017. This higher result was driven largely by the commencement of Bank Pekao's consolidation in June 2017.

After the contribution of banking activity is netted out, the net investment result after factoring in interest expenses after the first 3 quarters of 2018 was PLN 840 million and was PLN 775 million lower than in the previous year. The following factors affected the income:

- softer performance on listed equities, driven in particular by the deterioration of market conditions on the WSE – the WIG index fell by 7.5% after the first 3 quarters of 2018 compared to a 24.2% growth in the corresponding period of the previous year;
- investment income in the portfolio of assets to cover investment products down PLN 433 million y/y, even though it does not affect the PZU Group's overall net result;
- negative impact exerted by the foreign exchange differences on own debt securities in conjunction with the depreciation of the PLN versus EUR following appreciation in the comparable period, partially offset by stronger performance of investments denominated in EUR;
- better performance on interest-bearing financial instruments driven chiefly by the following:
  - higher valuation of Polish treasury bonds (tapering of the yield);
  - gains on foreign exchange differences in the FX portfolios (held chiefly to secure the financial liabilities by virtue of the issue of own debt securities).

Operating income of the investment segment (based exclusively on external transactions) were PLN 976 million less than in the corresponding period of 2017, primarily due to the worse conditions on the Warsaw Stock Exchange.

As at the end of September 2018, the value of the PZU Group's investment portfolio[5], excluding the impact of banking activity, was PLN 50,886 million compared to PLN 46,164 million as at the end of 2017.

The increase in the level of the investment portfolio was caused by the higher inflow of premiums as a result of business development and the increase in the balance of reverse repo transactions and term deposits with credit institutions entered into on the interbank market to enhance the return on investing activity and to adjust the investment portfolios to their benchmarks. The increase in the balance of these transactions was partly offset by the increase in the balance of funds presented in liabilities on transactions in financial instruments that are presented outside the investment portfolio.

The Group runs its investment operations in compliance with statutory requirements while maintaining appropriate levels of safety, liquidity and profitability, therefore debt treasury securities accounted for over 60% of the investment portfolio.

[4] The net investment result consists of net investment income, net realized result and impairment charges on investments and the net movement in the fair value of assets and liabilities measured at fair value.

[5] The investment portfolio contains investment financial assets (including investment products), investment properties (including the part presented in the category of assets held for sale) financial derivatives along with the negative valuation derivatives and liabilities arising from repurchase transactions presented in financial liabilities.

(in millions of PLN)

Structure of the portfolio of investments excluding the impact of banking activity

Investment portfolio	30 September 2018	31 December 2017
Equity instruments, including:	6,065	6,864
Equity instruments - quoted	1,729	2,483
Equity instruments - unquoted	4,336	4,381
Debt instruments, including:	42,103	36,689
Debt market instruments - treasury	30,639	29,996
Debt market instruments - non-treasury	1,568	1,673
Reverse repo transactions and term deposits with credit institutions	5,449	1,322
Loans	4,447	3,698
Investment property	2,698	2,521
Derivatives (net value)	20	90
Liabilities on account of repurchase transactions	-	-
Total investment portfolio	**50,886**	**46,164**

13.7 Pension insurance

Pension insurance	1 January – 30 September 2018	1 January – 30 September 2017	% change
Investment income	4	4	0.0%
Other income	108	91	18.7%
Income	**112**	**95**	**17.9%**
Administrative expenses	(29)	(35)	(17.1%)
Other	(3)	(1)	200.0%
Operating result	**80**	**59**	**35.6%**

Revenues on core business in the pension insurance segment after Q3 2018 and after Q3 2017 were PLN 112 million and PLN 95 million, respectively. The PLN 17 million (+17.9%) change was mainly due to a refund from the Insurance Guarantee Fund (PLN 9.9 million) and higher income from the management of funds (chiefly due to the takeover of PEKAO OFE's asset management since May 2018).

PTE PZU's administrative expenses dropped by PLN 6 million y/y (-17.1%). The main contributing factor were the surcharges for the Insurance Guarantee Fund in 2017 due to the rapid growth of the "PZU Złota Jesień" open-end pension fund.

As at the end of Q3 2018, the total net asset value of all open-end pension funds on the market was PLN 164.1 billion, down 9.4% from the end of September 2017. In the same period OFE PZU's assets fell by 11.2% to PLN 20.9 billion. In the period from January to September 2018, ZUS transferred PLN 238.9 million in gross contributions with interest to OFE PZU. OFE PZU transferred PLN 979.8 million to ZUS in what is known as the "slide". OFE PZU's rate of return in the period of 9 months of 2018 was -7.0%.

(in millions of PLN)

13.8 Baltic States

Data from the statement of profit or loss – Baltic States segment	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	1,177	1,028	14.5%
Net earned premium	1,091	910	19.9%
Investment income	8	15	(46.7%)
Net insurance claims and benefits paid	(664)	(566)	17.3%
Acquisition expenses	(234)	(201)	16.4%
Administrative expenses	(93)	(83)	12.0%
Other	1	1	0.0%
Insurance result	**109**	**76**	**43.4%**
EUR exchange rate in PLN	4.2535	4.2566	(0.1%)
acquisition expense ratio [1)]	21.4%	22.1%	(0.7 p.p.)
administrative expense ratio [1)]	8.5%	9.1%	(0.6 p.p.)

[1)] Ratios calculated using net earned premium

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

The Lithuanian non-life insurance market share as at the end of September 2018 was 29.9%, the life insurance market share was 6.2% and in Estonia it stood at 15.3%[6]. As at the end of June 2018, the share in the Latvian market was 27.7%.

On account of its activity in the Baltic states, the PZU Group generated as at the end of Q3 2018 an insurance result of PLN 109 million compared with PLN 76 million in the corresponding period last year.

This result was driven by the following factors:

- an increase in gross written premium. It amounted to PLN 1,177 million, up PLN 149 million compared to the corresponding period of the previous year. Non-life insurance recorded an increase by PLN 144 million, in particular in motor insurance driven by a considerable growth in new insurance business. In life insurance, written premium increased by PLN 5 million (or 11.9%). The rate of growth in gross written premium in the Baltic states segment stood at 14.5%;
- decrease in investment income. After the first 3 quarters of 2018, the result on investments reached PLN 8 million and was PLN 7 million lower than in the corresponding period of the previous year;
- increase the value of net claims and benefits. They amounted to PLN 644 million and were 17.3% higher than in the corresponding period of the previous year. The loss ratio in non-life insurance stood at 60.6%, down 1.0 p.p. from the corresponding period of the previous year: this resulted from good weather conditions and a lower frequency of mass claims. In life insurance, the value of benefits was PLN 31 million, up PLN 1 million compared to the first 3 quarters of 2017, in particular due to lower growth of provisions for client risk;
- higher acquisition expenses. They segment's expenditures for this purpose were at PLN 234 million, up 16.4% from the corresponding period of the previous year. However, the acquisition expense ratio calculated based on net earned premium

[6]As of 1 January 2018, IF P&C Insurance AC (the leader on the Estonian non-life insurance market) started to report total gross written premium, altering the approach taken to-date, based on installments and in that manner it significantly distorted market data. Other market players continue to report in installments, which means that market data are not comparable. At the same time, the Estonian insurance regulatory (EKsL) consented to implementing reporting based on gross written premium as of January 2019.

(in millions of PLN)

declined 0.6 p.p. compared to the end of Q3 of the previous year as a result of an increase in the portfolio share of motor insurance entailing lower commission liabilities;

- increase in administrative expenses. They were PLN 93 million, increasing by 12.0% from the corresponding period last year. At the same time, a decrease in the administrative expense ratio was recorded; it was 8.5%, down 0.6 p.p. relative to the corresponding period of the previous year.

13.9 Ukraine

Data from the profit and loss account – Ukraine segment	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premiums	183	168	8.9%
Net earned premium	110	91	20.9%
Investment income	13	12	8.3%
Net insurance claims and benefits paid	(42)	(41)	2.4%
Acquisition expenses	(60)	(50)	20.0%
Administrative expenses	(18)	(17)	5.9%
Other	17	16	6.3%
Insurance result	**20**	**11**	**81.8%**
exchange rate UAH/PLN	0.1323	0.1436	(7.9%)
acquisition expense ratio [1)]	54.5%	54.9%	(0.4 p.p.)
administrative expense ratio [1)]	16.4%	18.7%	(2.3 p.p.)

[1)] Ratios calculated using net earned premium

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

The Ukrainian non-life insurance market share at the end of H1 2018 was 3.1%, while the life insurance market share was 11.2%.

The Ukraine Segment closed Q3 2018 with operating profit of PLN 20 million, compared to PLN 11 million in the corresponding period of the previous year.

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

- an increase in gross written premium. It amounted to PLN 183 million, up PLN 15 million (or 8.9%) compared to the corresponding period of the previous year. Premium in non-life insurance improved by PLN 5 million and rose by PLN 10 million in life insurance. Gross written premium in the functional currency expanded by 18.5% y/y (i.e. UAH 216 million);
- higher investment income. It reached PLN 13 million and was 8.3% greater than in the corresponding period of the previous year;
- increase in net costs of claims and benefits. These reached PLN 42 million and were 2.4% lower than in the corresponding period of the previous year;
- higher acquisition expenses. They stood at PLN 60 million compared to PLN 50 million after the first 3 quarters of 2017. The most significant increase (i.e. by PLN 7 million) was in life insurance due to the higher contribution of new sales in the portfolio;
- increase in administrative expenses. They were PLN 18 million vis-à-vis PLN 17 million in the corresponding period of the previous year. The segment's administrative expense ratio went down 2.3 p.p. to 16.4%.

(in millions of PLN)

13.10 Investment contracts

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

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

Gross written premium generated on investment contracts after the first 3 quarters of 2018 decreased by PLN 3 million to PLN 27 million (-10.0%) compared to the corresponding period in 2017. The changes in gross written premium were caused mainly by modification of the IKZE product at the end of 2017, which allowed newly-signed contracts to be signed as insurance contracts and transferred to the individual insurance segment.

Data from the profit and loss account – investment contracts	1 January – 30 September 2018	1 January – 30 September 2017	% change
Gross written premium	27	30	(10.0)%
Group insurance	1	2	(50.0)%
Individual insurance	26	28	(7.1)%
Net earned premium	27	30	(10.0)%
Investment income	(11)	27	x
Net insurance claims and benefits and movement in other net technical provisions	(8)	(47)	(83.0)%
Acquisition expenses	(1)	(1)	-
Administrative expenses	(4)	(6)	(33.3)%
Other	-	-	x
Operating result	**3**	**3**	**-**
operating profit margin [1)]	11.1%	10.0%	1.1 p.p.

Result on investing activity in the investment contracts segment fell PLN 38 million vis-à-vis the previous year, mainly as a result of a worse rate of return on individual pension security accounts (IKZEs) and unit-linked funds in the bancassurance channel.

The cost of insurance claims and benefits together with the movement in other net technical provisions decreased PLN 39 million y/y to PLN 8 million due to the negative investment income in unit-linked products in this segment in the current period, as compared to the high positive performance in the previous year.

In the investment contract segment, no active acquisition of contracts is currently underway and only a small fee was paid in unit-linked products in the bancassurance channel.

Administrative expenses were PLN 4 million, down from the previous year as a consequence of the decreasing portfolio of contracts in this segment.

The operating result of the segment was PLN 3 million, the same as in the first 9 months of 2017.

14. Impact of non-recurring events on operating results

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was lower in Q3 2018 by PLN 17 million in comparison with the comparable period of the previous year. In Q1 2018, a non-recurring effect of remeasurement of provisions was recognized, mainly in motor insurance, for claims for general damages due to vegetative state, in the amount of PLN 148 million.

In the corresponding period, a higher level of losses caused by weather phenomena (storms) than the average for the last 3 years was recorded at PLN 120 million.

15. Macroeconomic environment

Main trends in the economy

GDP growth in Poland decelerated slightly in Q2 2018 to 5.1% y/y compared to 5.2% y/y in Q1 of this year. Household consumption was the greatest contributor to GDP growth (it added 2.9 p.p. to the pace of GDP growth). The increase in gross investments in fixed assets (+0.7 p.p.) and net exports (+0.5 p.p.) also made a positive contribution to the rate of GDP growth. The impact exerted by the change in stocks was close to zero (+0.2 p.p.).

The data portraying economic activity indicate that the real GDP growth rate in Q3 has probably dipped below 5.0% y/y. The pace of growth in industrial production sold was lower in this period than posted in H1 of this year as it trended downward. A marked decline in the indicators of business conditions in this sector accompanied the deceleration in the growth of industrial production (from 7.0% y/y in Q2 to 5.4% y/y in Q3). The deteriorating climate in international trade and the downturn in activity in German (and European) industry contributed to this outcome. However, the business conditions research done by the Central Statistics Office (GUS) and the National Bank of Poland indicates that favorable demand-side conditions persisted in Q3 of this year among non-financial companies and that the projections for Q4 continue to be robust – even though demand and output forecasts are softening somewhat. The level of construction and assembly production cleaned for seasonality rose steadily in Q3 of this year under the highly probable positive influence exerted by growth in local governments' investments. Nevertheless, the annual growth rate was lower than reported in H1 2018. Although the upswing in retail sales volume in Q3 (5.6% y/y) was similar to the figure reported in Q2 (5.5% y/y), its growth rate fell markedly in September of this year (3.6% y/y).

Labor market and consumption

In Q3, as conditions for doing business continued to be good, the high demand for labor persisted and companies voiced problems related to job vacancies. At the same time, in conjunction with labor supply constraints, the downward trend in the average employment growth rate in the corporate sector grew stronger (decline from 3.9% y/y in Q2 to 3.5% y/y in Q3). The number of people employed declined in September; it was only 3.2% higher than in the corresponding period of the previous year.

The pace at which the unemployment rate is falling is becoming slower as it approaches its natural level. The registered unemployment rate in September 2018 was 5.7% compared to 5.8% at the end of Q2.

The pace at which average monthly wages are rising in companies dipped in Q3 (to 6.9% y/y in nominal terms and 4.8% y/y in real terms); however, it continues to be relatively high. The National Bank of Poland's research indicates that some further minor deceleration in wage inflation is possible in the corporate sector.

Nevertheless, the conditions underpinning retail sales and consumption growth are favorable. Although the real growth rate of the payroll fund in the corporate sector has fallen off recently, the indicators of consumer conditions are still coming in at nearly record-breaking levels – even when coupled with the slight downward trend in the leading indicator. Major purchases in the current period continue to be regarded very highly. In Q2 2018 private consumption climbed 4.9% y/y in real terms while in Q3 its growth is just slightly lower.

Monetary policy, interest rates and inflation

Inflation measured by the consumer price index (CPI) was on the rise in the subsequent quarters of this year. In Q3 it was 2.0% y/y (compared to 1.7% y/y in the previous quarter). The annual growth rate in transport prices rose especially in this period. The annual growth rate of the prices for goods and services related to people's homes, recreation and culture was one area where they were higher than in the previous quarter. Despite the relatively high economic growth and the wage hike that outpaced last year's result, the growth rate of consumer prices continues to be moderate. Net core inflation continues to be at a low level (net of food and energy prices), although it did rise to 0.8% y/y in Q3 from 0.6% y/y in Q2. The globalization of production and moderate inflation among Poland's major trading partners limits the growth of core inflation.

In the period from January to September 2018 the National Bank of Poland's interest rates did not budge. The reference interest rate remained steady at the level of 1.5% set in March 2015. According to the Monetary Policy Council's members, the current level of interest rates fosters persistent sustainable growth in Poland and makes it possible to preserve macroeconomic equilibrium.

Public finance

The deficit in the public finance sector in the first two quarters of 2018 was 0.7% of GDP (source – Eurostat). The International Monetary Fund presented optimistic forecasts indicating that the deficit in the government and local government sector will fall to 0.3% of GDP in 2018 (versus 1.4% of GDP in 2017). At the end of September of this year, the state budget reported a surplus of PLN 3.2 billion. A significant contributing factor making it possible to deliver the budget was the favorable growth of income tax proceeds, which at the end of the first three quarters of 2018 came in at 14.9% y/y. This was due to the rapid growth of GDP, the vibrant labor market and the high tax payments made by businesses. Personal income tax proceeds were up 13.9% y/y during the first three quarters of 2018. In turn, corporate income tax proceeds were up 16.6% y/y. That actual expenditures were not very high also contributed to the state budget's robust performance in the first three quarters of 2018. According to the budget act, the borrowing needs for 2018 had been satisifed to the tune of approximately 71% in September of this year.

Situation on financial markets

The main central banks (Fed and ECB) continued their policy of cautiously withdrawing from their ultra-lax monetary policy. This applied particularly to the Fed, which administered another interest rate hike in Q3 2018 and hinted that this process would continue. Faced with these conditions in Q3 2018, we observed an increase in the yields of 10-year treasury bonds from the US and Germany. In the US, yields rose from about 2.85% to approximately 3.06%, while in Germany they closed the quarter at 0.47% versus 0.31% at the end of Q2. The yield expansion in the US stemmed among other things from robust GDP growth driven by the extensive easing of fiscal policy as a result of which a trend toward gradual wage and inflation growth is already visible while being accompanied by a very low rate of unemployment. The falloff of US bond prices was also driven by the higher supply of bonds on the market. The growth in the yields on German treasury bonds was lower in the face of softer data pertaining to economic growth in the eurozone.

In Q3 the yields on 10-year Polish treasury bonds rose slightly from 3.21% at the outset of the quarter to 3.24% at the end of September. Apart from the first two weeks of the quarter when spreads compressed significantly, the yields on 10-year treasury bonds followed the changes on the major underlying markets. At the same time, the yields of the "shorter" bonds were relatively stable across the quarter.

The euro exchange rate denominated in the US dollar fell from 1.17 at the end of Q2 to 1.16 at the end of September 2018. In Q3 2018 the Polish currency appreciated against the Euro (EUR/PLN) and the US dollar (USD/PLN). At the end of Q3 the EUR/PLN exchange rate was 4.27 (4.36 at the beginning of the quarter), while the USD/PLN exchange rate was 3.68 (3.74 at the end of June).

The situation on the major equity markets varied in Q3 2018. On the American market we observed strong growth in the indices boosted by the publications of corporates' robust earnings reports for Q2 (companies generated the highest growth in their earnings per share in this business cycle). During this period fears of a slowdown in the pace of economic growth in the eurozone affected the European stock markets. The US S&P 500 index climbed 7.2% in Q3 while the German DAX subsided by 0.5%.

The main indices on the Warsaw Stock Exchange also behaved differently from one another in Q3. The WIG20 large cap index moved up 7.0% in Q3. In turn, the mWIG40 and sWIG80 medium and small cap indices fell 1.2% and 9.5%, respectively. Consequently, the sWIG80 small cap index hit its lowest point since 2013. Banks and fuel companies were mainly responsible for the better performance of the large cap index. The growing expectations of interest rate hikes in Poland observed on the market boost banks' share prices. In turn, fuel companies benefited from global oil price expansion.

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

PZU did not publish any standalone or consolidated result forecasts.

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

Apart from events of a catastrophic nature (such as floods, cyclone, drought), the main factors which may affect the PZU Group's standing in the following quarter of 2018 include:

- difficulties in filling vacancies and salary pressures due to the currently low unemployment levels;
- possible slowdown in economic growth in Poland, and consequently:
  - cuts in household and corporate spending, including on purchases of motor insurance policies (due to lower sales of new cars), lower sales of loans and associated borrowers' insurance products and a slump in demand for other non-life insurance products;
  - a poorer financial standing of companies would result in an elevated credit risk (in particular in the banking segment) and
    a higher loss ratio on the financial insurance portfolio;
- Unfavorable situation on the capital markets resulting in: declining value of the investment portfolio, assets under management (TFI, OFE) and lower attractiveness of products, especially unit-linked products;
- an increase in bond yields, resulting in lower valuation of coupon-based securities;
- judicial decisions of the Supreme Courts regarding the amounts of monetary compensation for general damages disbursed from third-party liability insurance of motor vehicle owners to relatives of the injured person for harm resulting from a breach of the relative's personal rights (impact on the mass and corporate insurance segments);
- increase in the prices of spare parts affecting claims handling expenses due to the depreciation of the Polish zloty against the euro (impact on the mass and corporate insurance segments);
- possible increase in claims handling expenses due to the implementation of further guidelines issued by the Polish Financial Supervision Authority (KNF) regarding the handling of claims, in particular personal injury claims (impact on the mass and corporate insurance segments);
- administrative decisions issued by the Office for Competition and Consumer Protection (UOKiK) and social pressures on the prices of motor insurance products forcing insurance companies to modify their pricing policy (impact on the mass and corporate insurance segments);
- changes in the current mortality, fertility and morbidity levels (impact on the group and individually continued insurance segment);
- continued pressure on the prices of group insurance products. A price war is underway along with a war for the possession of clients and their data, resulting in lowering both the insurers' margins and the quality of the products offered to clients accompanied by the creation of barriers to entry and exit for clients at independent intermediaries (influence on the segment of group and individually continued insurance);
- changes in trends and clients' behaviors toward the customization of proposals and an electronic, swift and paperless method of purchasing and handling insurance, forcing insurance undertakings to rapidly adapt to these expectations;
- the emergence of new competitors and solutions, including the operators of large client bases or insurtech companies;
- entry into force of the insurance distribution act on 1 October 2018, so-called Insurance Distribution Directive: Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution.
- preparation of pension fund companies for potential organizational and legal changes arising from the transformation of open-end pension funds into mutual funds and of pension fund companies into mutual fund companies (impact on the pension segment);

- impact of the introduction of a new pension security system (Employee Capital Schemes) on the level of clients' contributions to the EPP programs currently held in PZU Życie's portfolio and on the results generated in this line of business for the PZU Group.

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

In the 9-month period ended 30 September 2018, neither PZU nor its subsidiaries materially issued, redeemed or repaid any debt securities or equity securities.

19. Default or breach of material provisions of loan agreements

During the 9 months ended 30 September 2018, in PZU and in its subsidiaries there were no instances of default or a breach of any material provisions of loan agreements in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 9-month period ended 30 September 2018, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be significant.

21. Dividends

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

On 28 June 2018, PZU's Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2017 totaling PLN 2,434 million by earmarking:

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

The record date was set at 12 September 2018 and the dividend payout date was set for 3 October 2018.

22. Disputes

The PZU Group entities participate in a number of litigations, arbitration disputes and administrative proceedings. Typical litigations involving the PZU Group companies include disputes pertaining to concluded insurance agreements, disputes concerning labor relationships and disputes relating to contractual obligations. Typical administrative proceedings involving the PZU Group companies include proceedings related to the possession of real properties. Such proceedings and litigation are of a typical and repetitive nature and usually no particular case is of material importance to the PZU Group.

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

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

During the 9-month period ended 30 September 2018 and by the date of conveying this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which would be material, save for the issues described below.

As at 30 September 2018, the total value of the subject matter of the litigation in all 222,405 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 7,065 million. PLN 3,952 million of that amount pertains to liabilities and PLN 3,113 million to the accounts receivable of PZU Group companies.

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

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

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

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

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

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

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

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

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

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

MSC's cassation appeal. According to the provisions of the Code of Civil Procedure, the Supreme Court's ruling is final non-appealable and ends the proceedings in the case.

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

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

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 30 September 2018, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution 8/2007 adopted by PZU's Ordinary Shareholder Meeting on distribution of profit for the financial year 2006, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

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

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

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

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

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

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

- no agreement (other than a brokerage agreement) was entered into between PZU and Maximus Broker;
- the President of the Office of Competition and Consumer Protection misunderstands the principles of execution of insurance contracts involving a broker;

- the majority of the insurance contractts involving Maximus Broker were entered into with insurance undertakings other than PZU;
- PZU and Maximus Broker cannot and could not in the past conduct competitive activity in the markets in which they operate.

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

PZU had a provision for this penalty, which amounted to PLN 57 million as at 30 September 2018 and 31 December 2017 alike.

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

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

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

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

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

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

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

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

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

On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with PBG's creditors and on 20 July 2016 it issued a decision to close the bankruptcy proceedings. The decision is final. Following the execution of the composition and reduction of claims to 20.93% of the reported figures, PZU received 206,139 PBG's bonds with a nominal value of PLN 21 million and 24,241,560 PBG shares with a nominal value of PLN 24 million. The carrying amount of the PBG shares as at 30 September 2018 was PLN 2 million (PLN 4 million as at 31 December 2017). Bonds – on 30 September 2018 and 31 December 2017, they were recognized in off-balance sheet records only and the carrying amount of the bonds was zero.

(in millions of PLN)

The first list of claims presented by Hydrobudowa's trustee in bankruptcy to the judge commissioner contained PZU SA's claims in the amount of PLN 16 million and the fourth supplementary list of claims contained PZU SA's claims in the amount of PLN 16 million. Accordingly, the total value of claims pursued by PZU on this account is PLN 32 million. In respect of claims for the amount of over PLN 66 million, on 24 October 2018 PZU filed an objection to the judge commissioner against the refusal to accept the submitted claim. The final list of claims submitted against the bankruptcy estate of Hydrobudowa has not been determined yet. Bankruptcy proceedings against Hydrobudowa are pending and the determination of the final list of claims is merely an initial step in these proceedings that precedes the drafting of the distribution plan (after the liquidation of the bankruptcy estate).

23. Other information

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

Issuer rating

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

Current rating

On 31 October 2018, S&PGR confirmed the PZU Group's rating at A- with a stable outlook. The agency's analysts drew attention to PZU's very strong position as the insurance market leader generating a higher profitability than that of its Polish and international competitors and assessed PZU's solvency at the highest possible level of AAA.

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

Company name	Rating and outlook	Date of award/update	Previous rating and outlook	Date of award/update
PZU				
Financial strength rating	A /Stable/	31 October 2018	A- /negative/	27 October 2017
Credit rating	A /Stable/	31 October 2018	A- /negative/	27 October 2017
PZU Życie				
Financial strength rating	A /Stable/	31 October 2018	A- /negative/	27 October 2017
Credit rating	A /Stable/	31 October 2018	A- /negative/	27 October 2017

Poland's credit rating

On 12 October 2018, S&PGR increased Poland's rating for long-term foreign currency-denominated liabilities to A- (from BBB+) and long-term domestic currency-denominated liabilities to A (from A-). At the same time, the agency increased Poland's rating for short-term domestic currency-denominated liabilities to A-1 (from A-2) and upheld the country's rating for short-term foreign currency-denominated liabilities at the current level of A-2. The rating outlook is stable.

(in millions of PLN)

23.2 Related party transactions

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

In the 9-month period ended 30 September 2018, neither PZU nor its subsidiaries executed any single or multiple transactions with their related parties that were of material significance individually or collectively and were executed on terms other than based on an arm's length principle.

23.2.2. Other related party transactions

Account balances and activities resulting from commercial transactions between the PZU Group and related parties	1 January – 30 September 2018 and as at 30 September 2018		1 January – 31 December 2017 and as at 31 December 2017		1 January – 30 September 2017 and as at 30 September 2017	
	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]	Key management staff of the main entities [1]	Other related parties [2]
Gross written premium	-	4	-	4	-	2
in non-life insurance	-	4	-	4	-	2
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	100 [3]	-	66 [3]
Expenses	-	-	-	2	-	3
Receivables	-	-		-	-	14
Financial liabilities	-	-	-	-	-	337
Liabilities	-	-	-	-	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

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

23.3 KNF Office inspections in PZU and PZU Życie

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

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

In the period from 19 June 2018 to 17 August 2018, a KNF inspection was conducted in PZU pertaining to claims handling and entering into insurance contracts. On 10 October 2018, PZU received a post-inspection report to which it submitted its explanations and qualifications on 24 October 2018. On 13 November 2018 PZU received KNF's response in which it advised PZU of having accepted the explanations given by PZU. As at the date of conveying this periodic report PZU has not received any post-inspection recommendations.

23.4 Supreme Audit Office inspection in PZU

On 28 September 2018, the Supreme Audit Office started an inspection in PZU. The scope of the inspection covers severance pays disbursed to former members of management in 2011-2017.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	30 September 2018	30 June 2018	31 December 2017 (restated)	30 September 2017 (restated)
I. Intangible assets, including:	**321,998**	**324,929**	**345,437**	**345,481**
- goodwill	-	-	-	-
II. Investments	**38,099,900**	**36,612,264**	**36,553,057**	**35,608,325**
1. Real property	370,099	371,668	369,702	373,367
2. Investments in related parties, including: [1)]	15,539,074	15,550,324	16,770,279	15,955,131
- investments in related parties measured by the equity method [1)]	15,193,609	15,205,897	15,957,526	15,555,445
3. Other financial investments	22,190,727	20,690,272	19,413,076	19,279,827
4. Deposits with ceding enterprises	-	-	-	-
III. Net assets for life insurance where the policyholder bears the investment risk	**-**	**-**	**-**	**-**
IV. Receivables	**3,533,822**	**3,901,896**	**2,315,241**	**4,077,925**
1. Receivables on direct insurance	1,641,061	1,892,583	1,822,002	1,672,712
1.1. From related parties	1,234	2,448	11,297	2,174
1.2. From other entities	1,639,827	1,890,135	1,810,705	1,670,538
2. Reinsurance receivables	290,266	113,238	152,966	185,877
2.1. From related parties	221,193	49,166	104,137	132,955
2.2. From other entities	69,073	64,072	48,829	52,922
3. Other receivables	1,602,495	1,896,075	340,273	2,219,336
3.1. Receivables from the state budget	3,766	26,229	29,518	33,886
3.2. Other receivables	1,598,729	1,869,846	310,755	2,185,450
a) from related parties	1,317,036	1,331,187	18,910	1,497,750
b) from other entities	281,693	538,659	291,845	687,700
V. Other assets	**684,344**	**971,221**	**1,100,090**	**714,733**
1. Property, plant and equipment	106,367	107,798	117,938	105,587
2. Cash	577,977	863,423	982,152	609,146
3. Other assets	-	-	-	-
VI. Prepayments and accruals	**1,984,815**	**2,551,754**	**2,051,608**	**2,045,413**
1. Deferred tax assets	-	-	-	-
2. Deferred acquisition costs	1,324,590	1,418,136	1,285,837	1,291,517
3. Accrued interest and rents	-	-	-	-
4. Other prepayments and accruals	660,225	1,133,618	765,771	753,896
VII. Unpaid share capital	**-**	**-**	**-**	**-**
VIII. Treasury stock	**-**	**-**	**-**	**-**
Total assets	**44,624,879**	**44,362,064**	**42,365,433**	**42,791,877**

[1)] Comparative data have been restated. More information on this matter is presented in item 10.

(in thousands of PLN)

Interim balance sheet (continued)

EQUITY AND LIABILITIES	30 September 2018	30 June 2018	31 December 2017 (restated)	30 September 2017 (restated)
I. Equity	**13,211,229**	**12,403,778**	**13,560,361**	**12,982,611**
1. Share capital	86,352	86,352	86,352	86,352
2. Supplementary capital	5,507,513	5,507,402	5,258,449	5,258,442
3. Revaluation reserve [1)]	5,145,518	5,087,223	5,781,686	5,489,228
4. Other reserve capital	-	-	-	-
5. Retained earnings (losses) [1)]	(5,473)	(5,473)	(25,155)	(25,155)
6. Net profit (loss)	2,477,319	1,728,274	2,459,029	2,173,744
7. Charges to net profit during the financial year (negative figure)	-	-	-	-
II. Subordinated liabilities	**2,257,639**	**2,277,840**	**2,284,674**	**2,264,217**
III. Technical provisions	**21,901,952**	**22,411,695**	**21,235,301**	**20,978,899**
IV. Reinsurers' share in technical provisions (negative figure)	**(1,121,060)**	**(1,229,480)**	**(1,158,963)**	**(970,762)**
V. Estimated salvage and subrogation (negative figure)	**(106,612)**	**(102,074)**	**(107,710)**	**(111,549)**
1. Gross estimated salvage and subrogation	(107,851)	(103,389)	(108,923)	(112,651)
2. Reinsurers' share in estimated salvage and subrogation	1,239	1,315	1,213	1,102
VI. Other provisions	**476,879**	**543,552**	**476,206**	**513,778**
1. Provisions for pension benefits and other compulsory employee benefits	43,067	52,993	42,336	44,655
2. Deferred tax liability	351,581	403,430	337,606	365,539
3. Other provisions	82,231	87,129	96,264	103,584
VII. Liabilities for reinsurers' deposits	**-**	**-**	**-**	**-**
VIII. Other liabilities and special-purpose funds	**7,222,209**	**7,070,569**	**5,146,129**	**6,389,428**
1. Liabilities on direct insurance	343,727	396,511	415,429	369,102
1.1. To related parties	2,832	3,329	3,999	1,125
1.2. To other entities	340,895	393,182	411,430	367,977
2. Reinsurance liabilities	187,323	163,541	121,981	110,804
2.1. To related parties	21,864	9,728	9,713	8,379
2.2. To other entities	165,459	153,813	112,268	102,425
3. Liabilities on the issue of own debt securities and drawn loans	3,637,650	3,698,976	3,558,260	3,660,828
4. Liabilities to credit institutions	-	86,408	-	198,768
5. Other liabilities	2,931,792	2,588,000	933,872	1,916,406
5.1. Liabilities to the state budget	168,174	75,362	110,011	139,048
5.2. Other liabilities	2,763,618	2,512,638	823,861	1,777,358
a) to related parties	31,628	15,136	13,086	20,858
b) to other entities	2,731,990	2,497,502	810,775	1,756,500
6. Special-purpose funds	121,717	137,133	116,587	133,520
IX. Prepayments and accruals	**782,643**	**986,184**	**929,435**	**745,255**
1. Accrued expenses	730,174	925,533	882,458	706,941
2. Negative goodwill	-	-	-	-
3. Deferred income	52,469	60,651	46,977	38,314
Total equity and liabilities	**44,624,879**	**44,362,064**	**42,365,433**	**42,791,877**

[1)] Comparative data have been restated. More information on this matter is presented in item 10.

(in thousands of PLN)

Interim balance sheet (continued)

	30 September 2018	30 June 2018	31 December 2017 (restated)	30 September 2017 (restated)
Book value	13,211,229	12,403,778	13,560,361	12,982,611
Number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Book value per share (PLN)	15.30	14.36	15.70	15.03
Diluted number of shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted book value per share (PLN)	15.30	14.36	15.70	15.03

2. Interim statement of off-balance sheet line items

Off-balance sheet items	30 September 2018	30 June 2018	31 December 2017	30 September 2017
1. Contingent receivables, including:	**4,160,998**	**4,162,265**	**4,615,722**	**4,585,335**
1.1. Guarantees and sureties received	2,809	2,733	2,225	2,227
1.2. Other [1)]	4,158,189	4,159,532	4,613,497	4,583,108
2. Contingent liabilities, including:	**4,513,477**	**4,625,713**	**4,544,743**	**4,616,712**
2.1. Guarantees and sureties given	3,648,059	3,761,796	3,574,120	3,678,517
2.2. Accepted and endorsed bills of exchange	-	-	-	-
2.3. Assets subject to the obligation of resale	-	-	-	-
2.4. Other liabilities secured on assets or income	-	-	-	-
3. Reinsurance collateral instituted in favor of the insurance undertaking	**-**	**-**	**-**	**-**
4. Reinsurance collateral instituted by the insurance undertaking in favor of ceding companies	**-**	**-**	**-**	**-**
5. Third party assets not recognized in assets	**113,161**	**113,931**	**116,361**	**116,005**
6. Other off-balance sheet line items	**-**	**-**	**-**	**-**
Total off-balance sheet line items	**8,787,636**	**8,901,909**	**9,276,826**	**9,318,052**

[1)] This item includes chiefly: security received in the form of a transfer of the debtor's assets, a mortgage on the debtor's assets, other contingent receivables, etc.

(in thousands of PLN)

3. Interim revenue account of non-life insurance

Revenue account of non-life insurance	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017	1 January – 30 September 2017
I. Premium income (1-2-3+4)	**3,114,277**	**9,028,268**	**2,928,108**	**8,235,481**
1. Gross written premium	2,617,152	9,572,253	2,535,059	9,241,171
2. Reinsurers' share in gross written premium	33,426	324,304	(12,254)	254,673
3. Movement in the provision for unearned premiums and provision for unexpired risks, gross	(639,526)	161,995	(509,466)	681,807
4. Reinsurers' share in the movement in provision for unearned premiums	(108,975)	(57,686)	(128,671)	(69,210)
II. Net investment income (including costs) transferred from the general profit and loss account	**62,871**	**186,187**	**62,297**	**189,262**
III. Other net technical income	**34,672**	**121,627**	**56,303**	**179,724**
IV. Claims and benefits (1+2)	**1,885,581**	**5,611,947**	**2,143,233**	**5,403,141**
1. Net claims and benefits paid	1,761,053	5,126,052	1,844,067	4,973,471
1.1. Gross claims and benefits paid	1,862,539	5,331,272	1,946,260	5,154,924
1.2. Reinsurers' share in claims and benefits paid	101,486	205,220	102,193	181,453
2. Movement in provision for outstanding claims and benefits, net of reinsurance	124,528	485,895	299,166	429,670
2.1. Movement in provision for outstanding claims and benefits, gross	126,292	507,011	360,287	541,364
2.2. Reinsurers' share in the movement in the provision for outstanding claims and benefits	1,764	21,116	61,121	111,694
V. Movement in other technical provisions, net of reinsurance	**-**	**-**	**-**	**-**
1. Movement in other technical provisions, gross	-	-	-	-
2. Reinsurers' share in the movement in other technical provisions	-	-	-	-
VI. Net bonuses and discounts including movement in provisions	**190**	**499**	**(498)**	**2,064**
VII. Insurance activity expenses	**740,327**	**2,189,367**	**699,919**	**2,036,483**
1. Acquisition expenses, including:	594,896	1,738,608	542,176	1,571,724
- movement in deferred acquisition costs	93,546	(38,753)	58,820	(82,890)
2. Administrative expenses	153,376	474,624	158,328	479,158
3. Reinsurance commissions and profit participation	7,945	23,865	585	14,399
VIII. Other net technical charges	**80,221**	**274,462**	**93,347**	**313,454**
IX. Movement in equalization provision	**-**	**-**	**-**	**-**
X. Technical result of non-life insurance	**505,501**	**1,259,807**	**110,707**	**849,325**

(in thousands of PLN)

4. Interim general profit and loss account

General profit and loss account	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
I. Technical result of non-life insurance or life insurance	**505,501**	**1,259,807**	**110,707**	**849,325**
II. Investment income	**547,600**	**2,460,388**	**286,021**	**2,279,071**
1. Investment income on real estate	1,442	4,149	1,726	4,582
2. Investment income from related parties	416,669	1,731,974	2,171	1,472,543
2.1. On ownership interests or shares	414,702	1,725,346	-	1,469,407
2.2. On borrowings and debt securities	1,945	6,570	2,167	3,132
2.3. On other investments	22	58	4	4
3. Other financial investment income	12,667	418,111	173,837	335,194
3.1. On ownership interests, shares, other variable income securities, participation units and investment certificates in mutual funds	2,533	7,537	2,379	7,881
3.2. On debt securities and other fixed income securities	19,823	374,570	152,868	330,229
3.3. On term deposits with credit institutions	(6,500)	(8,211)	2,142	(3,950)
3.4. On other investments	(3,189)	44,215	16,448	1,034
4. Gain on revaluation of investments	3,474	14,516	(1)	1,216
5. Gain on realization of investments	113,348	291,638	108,288	465,536
III. Unrealized investment gains	**(42,718)**	**62,999**	**(12,948)**	**201,576**
IV. Net investment income after including costs transferred from the technical life insurance account	-	-	-	-
V. Investment activity expenses	**108,466**	**343,150**	**106,158**	**411,727**
1. Real estate maintenance expenses	786	2,387	883	3,158
2. Other investment activity expenses	10,601	30,134	3,077	8,704
3. Loss on revaluation of investments	4,633	7,350	1,566	1,799
4. Loss on realization of investments	92,446	303,279	100,632	398,066
VI. Unrealized investment losses	**(83,432)**	**174,522**	**(9,034)**	**153,755**
VII. Net investment income after including costs transferred to the Revenue account of non-life insurance	**62,871**	**186,187**	**62,297**	**189,262**
VIII. Other operating income	**48,987**	**168,106**	**50,773**	**344,917**
IX. Other operating expenses	**84,616**	**496,380**	**196,076**	**559,372**
X. Operating profit (loss)	**886,849**	**2,751,061**	**79,056**	**2,360,773**
XI. Extraordinary gains	-	-	-	-
XII. Extraordinary losses	-	-	-	-
XIII. Share of the net profit (loss) of related parties measured by the equity method	**(43,087)**	**(40,987)**	**28,933**	**19,446**
XIV. Profit (loss) before tax	**843,762**	**2,710,074**	**107,989**	**2,380,219**
XV. Income tax	**94,717**	**232,755**	**35,564**	**206,475**
a) current part	157,824	237,825	79,528	140,459
b) deferred part	(63,107)	(5,070)	(43,964)	66,016
XVI. Other compulsory reductions in profit (increases in losses)	-	-	-	-
XVII. Net profit (loss)	**749,045**	**2,477,319**	**72,425**	**2,173,744**

(in thousands of PLN)

	1 July - 30 September 2018	1 January – 30 September 2018	1 July - 30 September 2017 (restated)	1 January – 30 September 2017 (restated)
Net profit (loss) (annualized) [1)]	2,971,755	3,312,166	287,338	2,906,288
Weighted average number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Earnings (loss) per common share (PLN) [1)]	0.87	2.87	0.08	2.52
Weighted average diluted number of common shares	863,523,000	863,523,000	863,523,000	863,523,000
Diluted earnings (loss) per common share (PLN) [1)]	0.87	2.87	0.08	2.52

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

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 30 September 2018	1 January – 31 December 2017 (restated)	1 January – 30 September 2017 (restated)
I. Equity at the beginning of the period (Opening Balance) [1)]	**13,583,172**	**12,117,464**	**12,208,165**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	(22,811)	(5,473)	(5,473)
c) result of the final settlement of the acquisition of an organized part of the business of Bank BPH SA by Alior Bank	-	-	(90,701)
I.a. Equity at the beginning of the period (Opening Balance), after adjustments to ensure comparability	**13,560,361**	**12,111,991**	**12,111,991**
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	**86,352**	**86,352**	**86,352**
2. Supplementary capital at the beginning of the period	**5,258,449**	**4,889,182**	**4,889,182**
2.1. Change in supplementary capital	249,064	369,267	369,260
a) additions (by virtue of):	249,064	369,267	369,260
- distribution of profit (above the statutorily required amount)	248,671	369,019	369,019
- from revaluation reserve – by sale and liquidation of fixed assets	393	248	241
b) decreases	-	-	-
2.2. Supplementary capital at the end of the period	**5,507,513**	**5,258,449**	**5,258,442**
3. Revaluation reserve at the beginning of the period [1)]	**5,781,686**	**5,568,661**	**5,639,680**
- changes in the accepted accounting principles (policy)	-	-	-
- result of the final settlement of the acquisition of an organized part of the business of Bank BPH SA by Alior Bank	-	-	(71,019)
3.1. Change in the revaluation reserve	(636,168)	213,025	(79,433)
a) additions (by virtue of):	278,395	528,732	393,487
- valuation of financial investments	273,878	527,168	392,463
- transfer of the impairment losses on investments available for sale	4,517	1,268	-
- additions by virtue of disposal of available for sale instruments	-	296	1,024
b) reductions (by virtue of)	914,563	315,707	472,920
- valuation of financial investments	914,170	276,080	423,464
- disposal of available for sale instruments	-	39,379	49,215
- sale of fixed assets	393	248	241
3.2. Revaluation reserve at the end of the period	**5,145,518**	**5,781,686**	**5,489,228**

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 30 September 2018	1 January – 31 December 2017 (restated)	1 January – 30 September 2017 (restated)
4. Other reserve capital at the beginning of the period	**-**	**-**	**-**
4.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
4.2. Other reserve capital at the end of the period	**-**	**-**	**-**
5. Retained earnings (losses) at the beginning of the period	**2,433,874**	**1,592,951**	**1,592,951**
5.1. Retained earnings at the beginning of the period	**2,433,874**	**1,592,951**	**1,592,951**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors - result of adjustments to comparative data made by Alior Bank	(5,473)	(5,473)	(5,473)
c) result of the final settlement of the acquisition of an organized part of the business of Bank BPH SA by Alior Bank	-	(19,682)	(19,682)
5.2. Retained earnings at the beginning of the period, after adjustments to ensure comparability	**2,428,401**	**1,567,796**	**1,567,796**
a) increases	-	-	-
b) decreases	2,433,874	1,592,951	1,592,951
- transfers to supplementary capital	248,671	369,019	369,019
- disbursement of dividends	2,158,807	1,208,932	1,208,932
- coverage of retained losses resulting from the final settlement of the acquisition of the organized part of the business of Bank BPH by Alior Bank	19,682	-	-
- transfers/charges to the Company Social Benefit Fund	6,714	15,000	15,000
5.3. Retained earnings at the end of the period	**(5,473)**	**(25,155)**	**(25,155)**
5.4. Retained losses at the beginning of the period	**-**	**-**	**-**
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
5.5. Retained losses at the beginning of the period, after adjustments to ensure comparability	**-**	**-**	**-**
a) increases	-	-	-
b) decreases	-	-	-
5.6. Retained losses at the end of the period	**-**	**-**	**-**
5.7. Retained earnings (losses) at the end of the period	**(5,473)**	**(25,155)**	**(25,155)**
6. Net result	**2,477,319**	**2,459,029**	**2,173,744**
a) net profit	2,477,319	2,459,029	2,173,744
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	**13,211,229**	**13,560,361**	**12,982,611**

[1] The presented figures come from historical financial statements.

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	1 January – 30 September 2018	1 January – 31 December 2017	1 January – 30 September 2017
A. Cash flow on operating activity			
I. Proceeds	**10,886,596**	**13,806,271**	**10,298,539**
1. Proceeds on direct activity and inward reinsurance	**9,969,446**	**12,650,607**	**9,441,842**
1.1. Proceeds on gross premiums	9,855,574	12,499,547	9,340,201
1.2. Proceeds on subrogation, salvage and claim refunds	96,396	131,408	85,867
1.3. Other proceeds on direct activity	17,476	19,652	15,774
2. Proceeds from outward reinsurance	**294,876**	**371,289**	**302,775**
2.1. Payments received from reinsurers for their share of claims paid	226,174	297,057	258,856
2.2. Proceeds on reinsurance commissions and profit participation	68,702	64,678	43,333
2.3. Other proceeds from outward reinsurance	-	9,554	586
3. Proceeds on other operating activity	**622,274**	**784,375**	**553,922**
3.1. Proceeds for acting as an emergency adjuster	216,540	293,550	231,330
3.2. Disposal of intangible assets and tangible non-current assets other than investments	1,178	1,719	1,562
3.3. Other proceeds	404,556	489,106	321,030
II. Expenditures	**9,478,925**	**12,207,631**	**9,087,145**
1. Expenditures on direct activity and inward reinsurance	**7,918,305**	**9,957,458**	**7,454,370**
1.1. Gross premium refunds	239,367	247,992	185,421
1.2. Gross claims and benefits paid	4,820,900	6,004,742	4,468,178
1.3. Acquisition expenditures	1,229,958	1,541,322	1,157,679
1.4. Administrative expenditures	1,048,598	1,435,181	1,087,152
1.5. Expenditures for claims handling and pursuit of subrogation	229,564	260,307	193,014
1.6. Commissions paid and profit-sharing on inward reinsurance	238,097	322,502	248,719
1.7. Other expenditures on direct activity and inward reinsurance	111,821	145,412	114,207
2. Expenditures on outward reinsurance	**402,474**	**453,876**	**353,110**
2.1. Premiums paid for reinsurance	402,247	453,627	352,937
2.2. Other expenditures on outward reinsurance	227	249	173
3. Expenditures on other operating activity	**1,158,146**	**1,796,297**	**1,279,665**
3.1. Expenditures for acting as an emergency adjuster	158,967	558,658	425,683
3.2. Purchase of intangible assets and tangible non-current assets other than investments	68,650	79,582	59,455
3.3. Other operating expenditures	930,529	1,158,057	794,527
III. Net cash flows from operating activities (I-II)	**1,407,671**	**1,598,640**	**1,211,394**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2018	1 January – 31 December 2017	1 January – 30 September 2017
B. Cash flow on investing activity			
I. Proceeds	**108,788,168**	**232,583,546**	**193,564,464**
1. Sale of real estate	20,971	22,394	20,706
2. Sale of ownership interests and shares in related parties	-	-	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in mutual funds	25,798	283,084	283,084
4. Realization of debt securities issued by related parties and amortization of the loans granted to these parties	-	63,040	42,435
5. Realization of debt securities issued by other entities	9,607,035	59,985,741	54,584,756
6. Liquidation of term deposits with credit institutions	33,193,512	55,122,177	40,588,208
7. Realization of other investments	65,097,299	114,704,701	97,227,197
8. Proceeds from real estate	5,517	8,037	5,823
9. Interest received	357,810	452,645	302,788
10. Dividends received	467,863	1,925,058	495,712
11. Other investment proceeds	12,363	16,669	13,755
II. Expenditures	**110,498,248**	**235,261,441**	**197,657,700**
1. Purchase of real estate	2,979	-	393
2. Purchase of ownership interests and shares in related parties	3,101	7,092,219	7,062,219
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in mutual funds	478,217	87,379	73,326
4. Purchase of debt securities issued by related parties and extension of loans to these parties	-	11,768	-
5. Purchase of debt securities issued by other entities	10,200,245	58,459,268	53,219,711
6. Purchase of term deposits with credit institutions	33,663,783	54,876,563	40,137,060
7. Purchase of other investments	66,089,749	114,684,065	97,127,652
8. Expenditures to maintain real estate	38,708	46,464	34,310
9. Other expenditures for investments	21,466	3,715	3,029
III. Net cash flows from investing activities (I-II)	**(1,710,080)**	**(2,677,895)**	**(4,093,236)**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 30 September 2018	1 January – 31 December 2017	1 January – 30 September 2017
C. Cash flow on financing activity			
I. Proceeds	**45,065,106**	**61,166,959**	**49,129,193**
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	45,065,106	61,166,959	49,129,193
3. Other financial proceeds	-	-	-
II. Expenditures	**45,207,039**	**60,186,196**	**46,739,024**
1. Dividends	-	1,208,932	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	45,067,110	58,926,473	46,688,233
5. Interest on loans and borrowings and issued debt securities	139,929	50,791	50,791
6. Other financial expenditures	-	-	-
III. Net cash flows from financing activities (I-II)	**(141,933)**	**980,763**	**2,390,169**
D. Total net cash flows (A.III+/-B.III+/-C.III)	**(444,342)**	**(98,492)**	**(491,673)**
E. Balance sheet change in cash, including:	**(404,175)**	**(165,879)**	**(538,885)**
- movement in cash due to exchange differences	40,167	(67,387)	(47,212)
F. Cash at the beginning of the period	**982,152**	**1,148,031**	**1,148,031**
G. Cash at the end of the period (F+/-E), including:	**577,977**	**982,152**	**609,146**
- restricted cash	58,948	45,756	43,272

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2017.

9. Changes in accounting policies

In the 9-month period ended 30 September 2018, no changes were made to the accounting principles (policy).

(in thousands of PLN)

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

10.1 Final settlement of the acquisition of the organized part of the business of Bank BPH SA by Alior Bank

As a result of the final settlement of the acquisition of the organized part of the business of Bank BPH SA by Alior Bank, and also of the making of the pertinent adjustments to Alior Bank's financial data to make them consistent with the accounting standards applied by PZU, the value of Alior Bank as at 30 September 2017 was adjusted.

10.2 Amendments to Alior Bank's comparative data

Alior Bank made adjustments to net assets pertaining to comparative data in the interim consolidated financial statements, thereby precipitating the necessity of reflecting the changes in PZU's quarterly standalone financial statements.

10.3 Final settlement of the Pekao acquisition

As a result of the final settlement of the acquisition of Pekao and also of the making of the pertinent adjustments to financial data to make them consistent with the accounting standards applied by PZU, the value of Pekao as at 30 September 2017 was adjusted.

10.4 Summary of changes

The effect of the impact exerted by the changes described in sections 10.1, 10.2 and 10.3 on the comparative data in the condensed interim financial statements has been presented below.

Impact exerted by the condensed interim financial statements on the balance sheet:

	30 September 2017 *Historical data*	**Change**	**30 September 2017** *Comparative data in financial statements*
Assets II.2. Investments in related parties	16,034,060	(78,929)	15,955,131
Equity and liabilities I. 3 Revaluation reserve, including:	5,568,157	(78,929)	5,489,228
- change at the beginning of the period (Opening Balance)		(71,019)	
- change during the period		(7,910)	
Equity and liabilities I. 5 Retained earnings (losses)	-	(25,155)	(25,155)
Equity and liabilities I. 6 Net profit (loss)	2,148,589	25,155	2,173,744

	31 December 2017 *Historical data*	**Change**	**31 December 2017** *Comparative data in financial statements*
Assets II.2. Investments in related parties	16,793,206	(22,927)	16,770,279
Equity and liabilities I. 3 Revaluation reserve, including:	5,824,295	(42,609)	5,781,686
- change at the beginning of the period (Opening Balance)		-	
- change during the period		(42,609)	
Equity and liabilities I. 5 Retained earnings (losses)	(19,682)	(5,473)	(25,155)
Equity and liabilities I. 6 Net profit (loss)	2,433,874	25,155	2,459,029

(in thousands of PLN)

Impact on the general profit and loss account:

	30 September 2017 *Historical data*	**Change**	**30 September 2017** *Comparative data in financial statements*
XIII. Share of the net profit (loss) of related parties measured by the equity method	(5,709)	25,155	19,446
XVII. Net profit (loss)	2,148,589	25,155	2,173,744

	31 December 2017 *Historical data*	**Change**	**31 December 2017** *Comparative data in financial statements*
XIII. Share of the net profit (loss) of related parties measured by the equity method	9,914	25,155	35,069
XVII. Net profit (loss)	2,433,874	25,155	2,459,029

Signatures of the PZU Management Board Members:

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

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 15 November 2018