Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for the 6 months ended
30 June 2019

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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 2018.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 6 months from 1 January to 30 June 2019.

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.

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 June 2019	1 January – 30 June 2018	30 June 2019	31 December 2018
Euro	4.2880	4.2395	4.2520	4.3000
British pound	4.9130	4.8179	4.7331	4.7895
Ukrainian hryvnia	0.1412	0.1324	0.1427	0.1357

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 6-month period ended 30 June 2019, the PZU Group companies did not discontinue any significant type of activity.

Seasonal or cyclical business

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

Glossary

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

Names of companies

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

EMC – EMC Instytut Medyczny SA.

Falck CM – Falck Centra Medyczne sp. z o.o.

Alior Bank Group – Alior Bank with its subsidiaries listed in section 1.2.

Pekao Group – Pekao with its subsidiaries listed in section 1.2.

Link4 – Link4 Towarzystwo Ubezpieczeń SA.

Pekao – Bank Pekao SA.

PZU, parent company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU Ukraine – PrJSC IC PZU Ukraine.

PZU Ukraine Life – PrJSC IC PZU Ukraine Life Insurance.

PZU Życie – Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

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

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

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

PZU standalone financial statements for 2018 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2018 prepared in accordance with PAS, signed by the PZU Management Board on 12 March 2019.

KNF – Polish Financial Supervision Authority.

Commercial Company Code – Act of 15 September 2000 entitled Commercial Company Code (consolidated text: Journal of Laws of 2019, Item 505).

IFRS – International Financial Reporting Standards, as endorsed by the European Commission, published and in force as at 30 June 2019.

NBP – National Bank of Poland;

POCI – Purchased or originated credit-impaired financial assets

PAS – Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019 Item 351) 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).

PZU Group's consolidated financial statements for 2018 – consolidated financial statements of the PZU Group prepared in accordance with IFRS for the year ended 31 December 2018.

KNF Office – Office of the Polish Financial Supervision Authority.

UOKiK – Office of Competition and Consumer Protection.

BGF Act – Act of 10 June 2016 on the Bank Guarantee Fund, Guaranteed Deposits System and Forced Restructuring (consolidated version: Journal of Laws of 2019, item 795, as amended).

Insurance Activity Act – Act of 11 September 2015 on Insurance and Reinsurance Activity (consolidated version: Journal of Laws of 2019 Item 381, as amended).

OSM PZU – Ordinary Shareholder Meeting of PZU.

(in millions of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated) 1)	1 January - 30 June 2018 (restated) 1)
Gross written premiums	7.1	5,938	11,839	6,050	11,881
Reinsurers' share in gross written premium		(137)	(239)	(285)	(336)
Net written premiums		**5,801**	**11,600**	**5,765**	**11,545**
Movement in net provision for unearned premiums		(59)	(266)	(169)	(491)
Net earned premiums		**5,742**	**11,334**	**5,596**	**11,054**
Revenue from commissions and fees	7.2	1,032	1,993	1,033	2,030
Net investment income	7.3	3,181	6,234	2,484	5,153
Net result on realization of financial instruments and investments	7.4	54	107	9	71
Movement in allowances for expected credit losses and impairment losses on financial instruments	7.5	(704)	(1,043)	(375)	(812)
Net movement in fair value of assets and liabilities measured at fair value	0	93	347	476	401
Other operating income	7.7	388	757	306	795
Claims, benefits and movement in technical provisions		(4,013)	(8,124)	(3,773)	(7,504)
Reinsurers' share in claims, benefits and movement in technical provisions		42	195	54	159
Net insurance claims and benefits paid	0	**(3,971)**	**(7,929)**	**(3,719)**	**(7,345)**
Fee and commission expenses	7.9	(217)	(391)	(182)	(353)
Interest expenses	7.10	(540)	(1,065)	(499)	(992)
Acquisition expenses	7.11	(823)	(1,616)	(768)	(1,519)
Administrative expenses	7.11	(1,656)	(3,276)	(1,727)	(3,342)
Other operating expenses	7.12	(965)	(2,349)	(895)	(2,086)
Operating profit		**1,614**	**3,103**	**1,739**	**3,055**
Share of the net financial results of entities measured by the equity method		(1)	(3)	1	1
Profit before tax		**1,613**	**3,100**	**1,740**	**3,056**

(in millions of PLN)

Interim consolidated profit and loss account (continuation)

Consolidated profit and loss account	Note	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated) [1)]	1 January - 30 June 2018 (restated) [1)]
Income tax	7.14	(427)	(902)	(431)	(771)
Net profit, including:		**1,186**	**2,198**	**1,309**	**2,285**
- profit attributable to the equity holders of the Parent Company		734	1,481	783	1,410
- profit attributable to holders of non-controlling interests		452	717	526	875
Weighted average basic and diluted number of common shares	0	863,314,163	863,268,725	863,374,918	863,442,942
Basic and diluted profit (loss) per common share (in PLN)	0	0.85	1.72	0.91	1.63

[1)] Information on restatement of data for the period from 1 January to 30 June 2018 is presented in section 3.2.

(in millions of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated) [1]	1 January - 30 June 2018 (restated)[1]
Net profit		1,186	2,198	1,309	2,285
Other comprehensive income	7.14	343	466	(105)	(40)
Subject to subsequent transfer to profit or loss		322	376	35	192
Valuation of debt instruments measured at fair value through other comprehensive income		299	286	(4)	134
Foreign exchange translation differences		(14)	(12)	45	56
Cash flow hedging		37	102	(6)	2
Not to be transferred to profit or loss in the future		21	90	(140)	(232)
Valuation of equity instruments measured at fair value through other comprehensive income		20	88	(139)	(234)
Reclassification of real property from property, plant and equipment to investment property		1	2	(1)	2
Total net comprehensive income		**1,529**	**2,664**	**1,204**	**2,245**
- comprehensive income attributable to equity holders of the Parent Company		930	1,799	720	1,309
- comprehensive income attributable to holders of non-controlling interest		599	865	484	936

[1] Information on restatement of data for the period from 1 January to 30 June 2018 is presented in section 3.2.

(in millions of PLN)

3. Interim consolidated statement of financial position

Assets	Note	30 June 2019	31 December 2018
Goodwill	7.15	3,920	3,871
Intangible assets	7.16	3,032	3,180
Other assets	7.17	570	562
Deferred acquisition expenses		1,590	1,546
Reinsurers' share in technical provisions	7.26	1,386	1,512
Property, plant and equipment	7.18	4,226	3,184
Investment property		1,796	1,697
Entities measured by the equity method		11	17
Loan receivables from clients	7.19	189,936	182,054
Financial derivatives	0	2,937	2,487
Investment financial assets	0	110,202	101,665
Measured at amortized cost		48,776	45,234
Measured at fair value through other comprehensive income		50,175	38,737
Measured at fair value through profit or loss		11,251	17,694
Deferred tax assets		2,336	2,234
Receivables	7.23	6,083	6,343
Cash and cash equivalents		10,915	17,055
Assets held for sale	7.24	1,139	1,147
Total assets		**340,079**	**328,554**

Equity and liabilities	Note	30 June 2019	31 December 2018
Equity			
Equity attributable to equity holders of the parent		14,311	14,925
Share capital		86	86
Other capital		12,988	12,566
Retained earnings		1,237	2,273
Retained earnings		(244)	(940)
Net profit		1,481	3,213
Non-controlling interest		21,962	22,482
Total equity		**36,273**	**37,407**
Liabilities			
Technical provisions	7.26	46,542	45,839
Provisions for employee benefits		556	531
Other provisions	7.27	625	519
Deferred tax liability		732	486
Financial liabilities	7.28	242,863	236,316
Other liabilities	7.29	12,429	7,407
Liabilities related directly to assets classified as held for sale	7.24	59	49
Total liabilities		**303,806**	**291,147**
Total equity and liabilities		**340,079**	**328,554**

(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 2019	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**2,273**	**-**	**14,925**	**22,482**	**37,407**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	75	-	-	-	-	-	75	13	88
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	228	-	-	-	-	-	228	58	286
Cash flow hedging	-	-	-	25	-	-	-	-	-	25	77	102
Foreign exchange translation differences	-	-	-	-	-	-	(12)	-	-	(12)	-	(12)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**330**	**-**	**-**	**(12)**	**-**	**-**	**318**	**148**	**466**
Net profit (loss)	-	-	-	-	-	-	-	-	1,481	1,481	717	2,198
Total comprehensive income	**-**	**-**	**-**	**330**	**-**	**-**	**(12)**	**-**	**1,481**	**1,799**	**865**	**2,664**
Other changes, including:	**-**	**3**	**445**	**(4)**	**(340)**	**-**	**-**	**(2,517)**	**-**	**(2,413)**	**(1,385)**	**(3,798)**
Distribution of financial result	-	-	440	-	(340)	-	-	(2,518)	-	(2,418)	(1,385)	(3,803)
Transactions on treasury shares	-	3	1	-	-	-	-	-	-	4	-	4
Transactions with holders of non-controlling interests	-	-		-	-	-	-	-	-	-	-	-
Other	-	-	4	(4)	-	-	-	1	-	1	-	1
As at 30 June 2019	**86**	**(8)**	**13,105**	**261**	**(322)**	**-**	**(48)**	**(244)**	**1,481**	**14,311**	**21,962**	**36,273**

(in millions of PLN)

Consolidated statement of changes in equity (continued)

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent										Non-controlling interest	Total equity
	Share capital	Other capital						Retained earnings		Total		
		Treasury 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	-	-	-	(519)	-	(512)	(1,146)	(1,658)
As at 1 January 2018 after the change of accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,077**	**-**	**14,087**	**21,815**	**35,902**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	(255)	-	-	-	-	-	(255)	8	(247)
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	9	-	-	-	-	-	9	6	15
Cash flow hedging	-	-	-	24	-	-	-	-	-	24	75	99
Foreign exchange translation differences	-	-	-	-	-	-	37	-	-	37	(1)	36
Actuarial gains and losses related to provisions for employee benefits	-	-	-	-	-	(4)	-	-	-	(4)	-	(4)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	3	-	-	-	-	-	3	-	3
Total net other comprehensive income	**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**-**	**(186)**	**88**	**(98)**
Net profit (loss)	-	-	-	-	-	-	-	-	3,213	3,213	2,155	5,368
Total comprehensive income	**-**	**-**	**-**	**(219)**	**-**	**(4)**	**37**	**-**	**3,213**	**3,027**	**2,243**	**5,270**
Other changes, including:	**-**	**(11)**	**836**	**(10)**	**13**	**-**	**-**	**(3,017)**	**-**	**(2,189)**	**(1,576)**	**(3,765)**
Distribution of financial result	-	-	848	-	14	-	-	(3,021)	-	(2,159)	(1,659)	(3,818)
Transactions on treasury shares	-	(11)	-	-	-	-	-	-	-	(11)	-	(11)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	83	64
Sale of revalued property and other	-	-	7	(10)	(1)	-	-	4	-	-	-	-
As at 31 December 2018	**86**	**(11)**	**12,660**	**(65)**	**18**	**-**	**(36)**	**(940)**	**3,213**	**14,925**	**22,482**	**37,407**

(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 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	-	-	-	(519)	-	(512)	(1,146)	(1,658)
As at 1 January 2018 after the change of accounting policies	**86**	**-**	**11,824**	**164**	**5**	**4**	**(73)**	**2,077**	**-**	**14,087**	**21,815**	**35,902**
Valuation of equity instruments measured at fair value through other comprehensive income	-	-	-	(189)	-	-	-	-	-	(189)	(45)	(234)
Valuation of debt instruments measured at fair value through other comprehensive income	-	-	-	26	-	-	-	-	-	26	108	134
Cash flow hedging	-	-	-	3	-	-	-	-	-	3	(1)	2
Foreign exchange translation differences	-	-	-	-	-	-	57	-	-	57	(1)	56
Reclassification of property from property, plant and equipment to investment property	-	-	-	2	-	-	-	-	-	2	-	2
Total net other comprehensive income	**-**	**-**	**-**	**(158)**	**-**	**-**	**57**	**-**	**-**	**(101)**	**61**	**(40)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,410	1,410	875	2,285
Total comprehensive income	**-**	**-**	**-**	**(158)**	**-**	**-**	**57**	**-**	**1,410**	**1,309**	**936**	**2,245**
Other changes, including:	**-**	**(10)**	**789**	**(6)**	**14**	**-**	**-**	**(2,976)**	**-**	**(2,189)**	**(1,581)**	**(3,770)**
Distribution of financial result	-	-	804	-	14	-	-	(2,976)	-	(2,158)	(1,659)	(3,817)
Transactions on treasury shares	-	(10)	-	-	-	-	-	-	-	(10)	-	(10)
Transactions with holders of non-controlling interests	-	-	(19)	-	-	-	-	-	-	(19)	78	59
Sale of revalued property and other	-	-	4	(6)	-	-	-	-	-	(2)	-	(2)
As at 30 June 2018	**86**	**(10)**	**12,613**	**-**	**19**	**4**	**(16)**	**(899)**	**1,410**	**13,207**	**21,170**	**34,377**

[1] Information on restatement of data for the period from 1 January to 30 June 2018 is presented in section 3.2.

(in millions of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January - 30 June 2019	1 January - 30 June 2018 (restated) 1)
Profit before tax	3,100	3,056
Adjustments	(2,951)	(7,892)
Movement in loan receivables from clients	(8,949)	(7,116)
Movement in liabilities under deposits	5,172	(753)
Movement in the valuation of assets measured at fair value	(347)	(401)
Interest income and expenses	(1,254)	(1,133)
Realized gains/losses from investing activities and impairment losses	910	689
Net foreign exchange differences	(24)	400
Movement in deferred acquisition expenses	(44)	(56)
Amortization of intangible assets and depreciation of property, plant and equipment	632	538
Movement in the reinsurers' share in technical provisions	126	(104)
Movement in technical provisions	703	1,025
Movement in receivables	(74)	(210)
Movement in liabilities	1,479	(586)
Cash flow on investment contracts	(8)	(9)
Acquisitions and redemptions of participation units and investment certificates of mutual funds	104	(116)
Income tax paid	(1,104)	(963)
Other adjustments	(273)	903
Net cash flows from operating activities	**149**	**(4,836)**
Cash flow from investing activities		
Proceeds	478,255	452,855
- sale of investment property	6	17
- proceeds from investment property	152	155
- sale of intangible assets and property, plant and equipment	31	24
- sale of ownership interests and shares	1,592	1,822
- realization of debt securities	127,106	103,815
- closing of buy-sell-back transactions	139,570	223,228
- closing of term deposits with credit institutions	192,773	109,155
- realization of other investments	16,119	13,779
- interest received	859	809
- dividends received	28	28
- increase in cash due to purchase of entities and change in the scope of consolidation	-	4
- other investment proceeds	19	19

(in millions of PLN)

Consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January - 30 June 2019	1 January - 30 June 2018 (restated) [1)]
Expenditures	(483,897)	(445,904)
- purchase of investment properties	(112)	(42)
- expenditures for the maintenance of investment property	(63)	(51)
- purchase of intangible assets and property, plant and equipment	(365)	(260)
- purchase of ownership interests and shares	(1,319)	(1,754)
- purchase of ownership interests and shares in subsidiaries	(63)	(12)
- decrease in cash due to the sale of entities and change in the scope of consolidation	(32)	-
- purchase of debt securities	(134,866)	(96,626)
- opening of buy-sell-back transactions	(139,195)	(223,316)
- purchase of term deposits with credit institutions	(192,073)	(109,375)
- purchase of other investments	(15,666)	(14,455)
- expenditures on leases	(132)	-
- other expenditures for investments	(11)	(13)
Net cash flows from investing activities	**(5,642)**	**6,951**
Cash flows from financing activities		-
Proceeds	64,802	117,941
- 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	758	1,266
- proceeds on the issue of own debt securities	3,589	1,834
- opening of repurchase transactions	60,455	114,829
Expenditures	(65,410)	(116,843)
- repayment of loans and borrowings	(1,858)	(1,180)
- redemption of own debt securities	(2,722)	(741)
- closing of repurchase transactions	(60,699)	(114,808)
- interest on loans and borrowings	(45)	(51)
- interest on outstanding debt securities	(86)	(63)
Net cash flows from financing activities	**(608)**	**1,098**
Total net cash flows	**(6,101)**	**3,213**
Cash and cash equivalents at the beginning of the period	17,055	8,239
Movement in cash due to foreign exchange differences	(39)	53
Cash and cash equivalents at the end of the period, including:	10,915	11,505
- restricted cash	45	67

[1)] Information on restatement of data for the period from 1 January to 30 June 2018 is presented in section 3.2.

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

According to the Polish Classification of Business Activity and the Statistical Classification of Economic Activities in Europe, the core business of PZU consists of non-life insurance (65.12).

(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 June 2019	31 December 2018	
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. https://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. https://www.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	20.02%	20.03%	Banking services. https://www.pekao.com.pl/
11	Pekao Bank Hipoteczny SA	Warsaw	07.06.2017	20.02%	20.03%	Banking services. http://www.pekaobh.pl/
12	Centralny Dom Maklerski Pekao SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. https://www.cdmpekao.com.pl/
13	Pekao Leasing sp. z o.o.	Warsaw	07.06.2017	20.02%	20.03%	Leasing services. http://www.pekaoleasing.com.pl/
14	Pekao Investment Banking SA	Warsaw	07.06.2017	20.02%	20.03%	Brokerage services. http://pekaoib.pl/
15	Pekao Faktoring sp. z o.o.	Lublin	07.06.2017	20.02%	20.03%	Factoring services. https://www.pekaofaktoring.pl/
16	Pekao Powszechne Towarzystwo Emerytalne SA in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Management of pension funds.
17	Pekao Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	11.12.2017	20.02%	20.03%	Creation, representing and management of mutual funds. https://www.pekaotfi.pl/tfi/welcome
18	Centrum Kart SA	Warsaw	07.06.2017	20.02%	20.03%	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 June 2019	31 December 2018	
Consolidated companies – Pekao Group – continued						
19	Pekao Financial Services sp. z o.o.	Warsaw	07.06.2017	46.81% 1)	46.82% 1)	Transfer agent. http://www.pekao-fs.com.pl/pl/
20	Centrum Bankowości Bezpośredniej sp. z o.o.	Krakow	07.06.2017	20.02%	20.03%	Call-center services. http://www.cbb.pl/
21	Pekao Property SA in liquidation 2)	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
22	FPB – Media sp. z o.o. in liquidation 3)	Warsaw	07.06.2017	20.02%	20.03%	Development activity.
23	Pekao Fundusz Kapitałowy sp. z o.o. in liquidation	Warsaw	07.06.2017	20.02%	20.03%	Business consulting
24	Pekao Investment Management SA	Warsaw	11.12.2017	20.02%	20.03%	Asset management. https://www.pekaotfi.pl/tfi/welcome
25	Dom Inwestycyjny Xelion sp. z o.o.	Warsaw	11.12.2017	20.02%	20.03%	Financial intermediation. https://www.xelion.pl/
Consolidated companies – Alior Bank Group						
26	Alior Bank SA	Warsaw	18.12.2015	31.95%	31.93%	Banking services. https://www.aliorbank.pl/
27	Alior Services sp. z o.o.	Warsaw	18.12.2015	31.95%	31.93%	Other activity supporting financial services, excluding insurance and pension funds.
28	Centrum Obrotu Wierzytelnościami sp. z o.o. in liquidation 4)	Krakow	18.12.2015	31.95%	31.93%	The company does not conduct any activity
29	Alior Leasing sp. z o.o.	Wroclaw	18.12.2015	31.95%	31.93%	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
30	Meritum Services ICB SA	Gdańsk	18.12.2015	31.95%	31.93%	IT services.
31	Alior TFI SA	Warsaw	18.12.2015	31.95%	31.93%	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	31.95%	31.93%	The company does not conduct any activity
33	Absource sp. z o.o.	Krakow	04.05.2016	31.95%	31.93%	Service activity in the area of IT.
34	Serwis Ubezpieczeniowy sp. z o.o.	Katowice	30.01.2017	31.95%	31.93%	Brokerage activity.
35	Corsham sp. z o.o. 5)	Warsaw	04.02.2019	31.95%	n/a	Business consulting
Consolidated companies – PZU Zdrowie Group						
36	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	Medical services https://www.pzu.pl/pl/grupa-pzu/spolki/pzu-zdrowie
37	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
38	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
39	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/

(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 June 2019	31 December 2018	
Consolidated companies – PZU Zdrowie Group – continued						
40	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Medical services. http://www.elvita.pl/
41	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
42	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
43	Polmedic sp. z o.o.	Radom	30.11.2016	100.00%	100.00%	Medical services. http://www.polmedic.com.pl/
44	Artimed Niepubliczny Zakład Opieki Zdrowotnej sp. z o.o.	Kielce	21.12.2016	100.00%	100.00%	Medical services. http://artimed.pl/
45	Revimed sp. z o.o.	Gdańsk	31.05.2017	100.00%	100.00%	Medical services. http://www.revimed.pl/
46	Centrum Medyczne św. Łukasza sp. z o.o.	Częstochowa	09.01.2018	100.00%	100.00%	Medical services. http://www.cmlukasza.pl/
47	Specjalistyczny Zakład Opieki Zdrowotnej Multimed sp. z o.o.	Oświęcim	31.12.2018	100.00%	100.00%	Medical services. http://www.multimed.oswiecim.pl/
48	Alergo-Med Tarnów sp. z o.o. 5)	Tarnów	31.01.2019	100.00%	n/a	Medical services. http://alergomed.tarnow.pl/
49	Falck Centra Medyczne sp. z o.o. 5)	Warsaw	03.06.2019	100.00%	n/a	Medical services.
50	Starówka sp. z o.o. 5)	Warsaw	03.06.2019	100.00%	n/a	Medical services.
Consolidated companies – other companies						
51	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
52	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
53	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
54	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Provision of assistance services. https://www.pzu.pl/grupa-pzu/spolki/pzu-pomoc
55	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
56	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
57	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
58	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/

(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 June 2019	31 December 2018	
Consolidated companies – other companies – continued						
59	Arm Property sp. z o.o.	Krakow	26.11.2014	100.00%	100.00%	Purchase and sale of real estate.
60	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Provision of assistance services and medical services.
61	PZU Corporate Member Limited	London (UK)	28.09.2017	100.00%	100.00%	Investment activity.
62	PZU LAB 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
63	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	No business conducted.
64	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	No business conducted.
65	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
66	Battersby Investments SA	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
67	Tulare Investments sp. z o.o.	Warsaw	15.09.2017	100.00%	100.00%	No business conducted.
Consolidated companies – Armatura Group						
68	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/
69	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings. http://www.aquaform.com.pl/
70	Aquaform Badprodukte GmbH in Liquidation [6)]	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale trade.
71	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale trade. http://aquaform.org.ua/
72	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale trade.
73	Morehome.pl sp. z o.o. in liquidation [7)]	Środa Wlkp.	15.01.2015	100.00%	100.00%	No business conducted.
Consolidated companies – mutual funds						
74	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from fund members.
75	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	as above
76	PZU FIZ Sektora Nieruchomości [8)]	Warsaw	01.07.2008	n/a	n/a	as above
77	PZU FIZ Sektora Nieruchomości 2 [8)]	Warsaw	21.11.2011	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 June 2019	31 December 2018	
Consolidated companies – mutual funds – continued						
78	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	as above
79	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	as above
80	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	as above
81	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	as above
82	PZU Innowacyjnych Technologii in liquidation	Warsaw	07.09.2016	n/a	n/a	as above
83	PZU FIZ Akcji Combo	Warsaw	09.03.2017	n/a	n/a	as above
84	inPZU Inwestycji Ostrożnych	Warsaw	10.04.2018	n/a	n/a	as above
85	inPZU Obligacje Polskie	Warsaw	10.04.2018	n/a	n/a	as above
86	inPZU Akcje Polskie	Warsaw	10.05.2018	n/a	n/a	as above
87	inPZU Akcji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
88	inPZU Obligacji Rynków Rozwiniętych	Warsaw	10.05.2018	n/a	n/a	as above
89	inPZU Obligacji Rynków Wschodzących	Warsaw	10.05.2018	n/a	n/a	as above
Associates						
90	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance administration. http://gsupomoc.pl/
91	EMC Instytut Medyczny SA	Wroclaw	18.06.2013	28.31% [9)]	28.31% [9)]	Human health activities, research and development in the area of medical sciences and pharmaceutical practice. http://www.emc-sa.pl/
92	CPF Management	Tortola, British Virgin Islands	07.06.2017	8.01% [10)]	8.01% [10)]	Consulting and business activity – no business conducted.
93	PayPo sp. z o.o.	Warsaw	15.11.2018	6.39% [11)]	6.39% [11)]	Financial services. https://paypo.pl/

[1)] As of 4 June 2018 PZU directly holds a 33.5% equity stake in PFS while Pekao holds 66.5%.
[2)] On 1 March 2019 the company's liquidation process was opened.
[3)] As of 11 April 2019 it operates under the name of FPB – Media sp. z o.o. in bankruptcy.
[4)] On 17 July 2019, the company was removed from the commercial register, KRS.
[5)] Additional information is presented in item 1.4.
[6)] On 15 January 2019 the company's liquidation process was opened.
[7)] On 7 January 2019, an application was filed with KRS on the liquidation of the company.
[8)] As at 30 June 2019, the funds PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through (consolidated) subsidiary companies established under commercial law as special-purpose vehicles whose number in the respective funds was: 18 and 18 (as at 31 December 2018: 18 and 18, respectively).
[9)] The percentage of votes held by PZU is different from the stake held in the share capital, and both as at 30 June 2019 and as at 31 December 2018 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.
[10)] 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.
[11)] Alior Bank's associate in which it holds a 20.00% stake. Consequently, the PZU Management Board recognizes that the PZU Group has significant influence over this company.

(in millions of PLN)

On 10 June 2019, the court issued a decision to remove Syta Development Sp. z o.o. in liquidation from the corporate register KRS. Control over the company was exercised by a liquidator independent of the PZU Group and for this reason the company was not consolidated.

On 14 May 2019, the court issued a decision to remove Ardea Alba SA in liquidation from the corporate register KRS. The court decision became final on 28 May 2019. The removal of the company did not affect the condensed interim consolidated financial statements.

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 June 2019	31 December 2018
Pekao [1)]	79.98%	79.97%
Alior Bank [2)]	68.05%	68.07%
Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	43.00%	43.00%
Centrum Medyczne Gamma sp. z o.o.	39.54%	39.54%
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%

[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 June 2019	31 December 2018
Pekao Group	17,649	18,251
Alior Bank Group	4,307	4,225
Other	6	6
Total	**21,962**	**22,482**

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 June 2019	31 December 2018	30 June 2019	31 December 2018
Goodwill	692	692	-	-
Intangible assets	1,656	1,777	650	658
Other assets	88	45	45	35
Property, plant and equipment	2,125	1,682	815	461
Investment property	13	13	-	-
Loan receivables from clients	134,379	128,242	55,557	53,811
Financial derivatives	2,172	1,765	615	579
Entities measured by the equity method	-	-	4	4
Investment financial assets	48,175	40,356	15,007	13,636
Measured at amortized cost	17,215	12,262	6,861	6,307
Measured at fair value through other comprehensive income	28,622	27,266	8,068	7,280
Measured at fair value through profit or loss	2,338	828	78	49
Deferred tax assets	1,140	1,112	1,137	1,076
Receivables	2,108	2,235	835	815
Cash and cash equivalents	4,336	13,219	2,135	2,069
Assets held for sale	44	4	-	-
Total assets	**196,928**	**191,142**	**76,800**	**73,144**

(in millions of PLN)

Equity and liabilities	Pekao Group		Alior Bank Group	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018
Equity				
Equity attributable to equity holders of the parent	22,066	22,824	6,329	6,207
Share capital	262	262	1,306	1,306
Other capital	20,539	20,721	5,627	5,609
Retained earnings	1,265	1,841	(604)	(708)
Non-controlling interest	12	11	-	-
Total equity	**22,078**	**22,835**	**6,329**	**6,207**
Liabilities				
Provisions for employee benefits	405	407	33	32
Other provisions	407	297	109	119
Deferred tax liability	32	33	-	-
Financial liabilities	168,065	164,636	68,795	65,373
Other liabilities	5,941	2,934	1,534	1,413
Total liabilities	**174,850**	**168,307**	**70,471**	**66,937**
Total equity and liabilities	**196,928**	**191,142**	**76,800**	**73,144**

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 June 2019	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	11,839	-	-	7	11,846
Reinsurers' share in gross written premium	(239)	-	-	-	(239)
Net written premiums	**11,600**	**-**	**-**	**7**	**11,607**
Movement in net provision for unearned premiums	(266)	-	-	4	(262)
Net earned premiums	**11,334**	**-**	**-**	**11**	**11,345**
Revenue from commissions and fees	1,993	(1,375)	(547)	44	115
Net investment income	6,234	(3,397)	(2,073)	12	776
Net result on realization of financial instruments and investments	107	(53)	(40)	-	14
Movement in allowances for expected credit losses and impairment losses on financial instruments	(1,043)	266	804	-	27
Net movement in fair value of assets and liabilities measured at fair value	347	(38)	(9)	2	302
Other operating income	757	(187)	(154)	19	435
Claims, benefits and movement in technical provisions	(8,124)	-	-	-	(8,124)
Reinsurers' share in claims, benefits and movement in technical provisions	195	-	-	-	195
Net insurance claims and benefits paid	**(7,929)**	**-**	**-**	**-**	**(7,929)**
Fee and commission expenses	(391)	179	212	-	-
Interest expenses	(1,065)	604	388	(9)	(82)
Acquisition expenses	(1,616)	-	-	(40)	(1,656)
Administrative expenses	(3,276)	1,677	767	(17)	(849)
Other operating expenses	(2,349)	1,142	394	(22)	(835)
Operating profit (loss)	**3,103**	**(1,182)**	**(258)**	**-**	**1,663**
Share of the net financial results of entities measured by the equity method	(3)	-	-	-	(3)

(in millions of PLN)

Consolidated profit and loss account for the period from 1 January to 30 June 2019	PZU Group	Elimination of Pekao's data	Elimination of Alior Bank's data	Elimination of consolidation adjustments	PZU Group without Pekao and Alior Bank
Profit (loss) before tax	**3,100**	**(1,182)**	**(258)**	**-**	**1,660**
Income tax	(902)	382	148	-	(372)
Net profit (loss)	**2,198**	**(800)**	**(110)**	**-**	**1,288**

Consolidated profit and loss account for the period from 1 January to 30 June 2018 (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	11,881	-	-	6	11,887
Reinsurers' share in gross written premium	(336)	-	-	-	(336)
Net written premiums	**11,545**	**-**	**-**	**6**	**11,551**
Movement in net provision for unearned premiums	(491)	-	-	-	(491)
Net earned premiums	**11,054**	**-**	**-**	**6**	**11,060**
Revenue from commissions and fees	2,030	(1,385)	(537)	12	120
Net investment income	5,153	(2,954)	(1,589)	7	617
Net result on realization of financial instruments and investments	71	(67)	(33)	-	(29)
Movement in allowances for expected credit losses and impairment losses on financial instruments	(812)	285	488	-	(39)
Net movement in fair value of assets and liabilities measured at fair value	401	(27)	(377)	-	(3)
Other operating income	795	(180)	(222)	-	393
Claims, benefits and movement in technical provisions	(7,504)	-	-	-	(7,504)
Reinsurers' share in claims, benefits and movement in technical provisions	159	-	-	-	159
Net insurance claims and benefits paid	**(7,345)**	**-**	**-**	**-**	**(7,345)**
Fee and commission expenses	(353)	183	168	-	(2)
Interest expenses	(992)	547	374	(7)	(78)
Acquisition expenses	(1,519)	-	-	(12)	(1,531)
Administrative expenses	(3,342)	1,724	806	(6)	(818)
Other operating expenses	(2,086)	796	403	-	(887)
Operating profit (loss)	**3,055**	**(1,078)**	**(519)**	**-**	**1,458**
Share of the net financial results of entities measured by the equity method	1	-	-	-	1
Profit (loss) before tax	**3,056**	**(1,078)**	**(519)**	**-**	**1,459**
Income tax	(771)	305	140	-	(326)
Net profit (loss)	**2,285**	**(773)**	**(379)**	**-**	**1,133**

(in millions of PLN)

Statement of comprehensive income	Pekao Group		Alior Bank Group	
	1 January – 30 June 2019	1 January – 30 June 2018 (restated)	1 January – 30 June 2019	1 January – 30 June 2018 (restated)
Net profit	800	773	110	379
Other comprehensive income	176	44	10	39
Valuation of debt instruments measured at fair value through other comprehensive income	82	117	3	21
Valuation of equity instruments measured at fair value through other comprehensive income	14	(56)	(12)	-
Net cash flow hedges	80	(17)	19	19
Foreign exchange differences	-	-	-	(1)
Total net comprehensive income	**976**	**817**	**120**	**418**

Cash flow statement	Pekao Group		Alior Bank Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Net cash flows from operating activities	(2,685)	(5,854)	2,275	(457)
Net cash flows from investing activities	(5,937)	7,422	(1,195)	1,063
Net cash flows from financing activities	(252)	1,133	(275)	(117)
Total net cash flows	**(8,874)**	**2,701**	**805**	**489**

Dividend-related information	Pekao Group		Alior Bank Group	
	1 January – 30 June 2019	1 January – 30 June 2018	1 January – 30 June 2019	1 January – 30 June 2018
Date of ratifying the dividend	26 June 2019	21 June 2018	-	-
Record date	10 July 2019	6 July 2018	-	-
Dividend payout date	30 July 2019	20 July 2018	-	-
Dividend per share (PLN)	6.60	7.90	-	-
Dividend due to the PZU Group	347	415	-	-
Dividend due to non-controlling shareholders	1,385	1,659	-	-

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

1.4.1. Medical companies

Falck CM

On 13 March 2019 PZU Zdrowie SA entered into a preliminary agreement and on 3 June 2019 a final agreement with Falck Danmark A/S to acquire 403,551 shares in Falck CM, which constituted 100% of the share capital and offering 100% of votes at the shareholder meeting, with par value of PLN 50 each. At the same time, PZU Zdrowie SA, and thereby also PZU, became the indirect owner of Starówka sp. z o.o. in which Falck CM has a 100% equity stake.

Since the date of obtaining control, i.e. 3 June 2019, both companies have been consolidated.

Alergo-Med Tarnów sp. z o.o.

On 31 January 2019, PZU Zdrowie acquired 1,432 shares in Alergo – Med Tarnów 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 500 each.

Since the date of obtaining control, i.e. 31 January 2019, Alergo – Med sp. z o.o. has been consolidated.

(in millions of PLN)

Corsham sp. z o.o.

On 4 February 2019 Alior Bank acquired 100 shares in Corsham sp. z o.o. representing 100% of the share capital and 100% of votes at the shareholder meeting with a par value of PLN 50 each.

Since the date of obtaining control, i.e. 4 February 2019, Corsham sp. z o.o. has been consolidated.

Provisional purchase price allocation

The purchase price allocation process for Falck CM and Starówka Sp. z o.o. shares was carried out based on the accounting data of these companies as at 31 May 2019, under the assumption that no material differences in accounting data transpired between 31 May 2019 and 3 June 2019, which was the date of obtaining control.

By the date of signing the condensed interim consolidated financial statements the purchase price allocation process of Falck CM and Starówka Sp. z o.o has not been completed. A credible and reliable calculation of the fair value of acquired assets and liabilities requires a large amount of data to be collected and processed in order to make correct calculations. Consequently, this process could not be completed between the date of obtaining control and the date of signing of the condensed interim consolidated financial statements.

At the end of the purchase price allocation process, IFRS 3 requires one year from the transaction date and that final purchase price allocation will be included in the consolidated financial statements of the PZU Group for the year ended 31 December 2019.

The tables below present the provisional allocation of the purchase price of the medical companies.

Value of acquired net assets	Preliminary settlement
Assets	**31**
Property, plant and equipment	17
Receivables	7
Cash and cash equivalents	7
Liabilities	**18**
Financial liabilities	10
Other liabilities	8
Value of acquired net assets	**13**

Calculated goodwill	Preliminary settlement
Consideration transferred	68
Net value of identifiable assets	(13)
Goodwill	**55**

Goodwill will not reduce taxable income.

1.4.2. Consolidated mutual funds

On account of losing control, the following mutual funds are no longer subject to consolidation: PZU Akcji Spółek Dywidendowych sub-fund, PZU FIZ Akcji Focus, PZU FIZ Forte since 31 March 2019 and PZU Dłużny Aktywny sub-fund since 1 June 2019.

1.4.3. Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno

On 31 January 2019, the KNF decided that Alior Bank would take over Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jaworzno (SKOK Jaworzno). In line with KNF’s decision, starting on 1 February 2019, Alior Bank assumed management over the assets of SKOK Jaworzno, which was acquired by Alior Bank as of 1 April 2019.

(in millions of PLN)

The acquisition of SKOK Jaworzno was accounted for using IFRS 3. The process was carried out with the assumption that the Bank Guarantee Fund would provide aid to Alior Bank pursuant to Article 264 of the Bank Guarantee Fund Act and it would not require payment by Alior Bank. The aid from BFG will involve provision of a subsidy and extension of a guarantee to cover losses (applicable agreements are being finalized) resulting from the risk associated with the SKOK Jaworzno's property rights being acquired. The BFG subsidy will be granted to cover the difference between the value of the acquired property rights and the liabilities arising from guaranteed funds of SKOK's depositors. As at 30 June 2019, the value of the subsidy was estimated at PLN 96 million. In accordance with IFRS 3, the final acquisition purchase price allocation must be completed within 12 months of the acquisition date, that is until the end of March 2020.

Provisional purchase price allocation in the SKOK Jaworzno acquisition

Pursuant to the provisions of IFRS 3, the PZU Group recognized the acquired assets and liabilities at fair value.

The fair value of the SKOK Jaworzno's loan portfolio was calculated for loans with no recognized impairment (performing portfolio). For these loans, the calculation was based on contractual cash flows adjusted for credit risk and prepayments. The fair value of the SKOK's performing loan portfolio was determined by using a discounted cash flow model by using the observed market values of interest rates adjusted for liquidity margins and cost of capital, broken down into homogeneous sub-portfolios. The fair value of the non-performing loan portfolio was assumed to be equal to the carrying amount due to the expected insignificant recovery levels.

The fair value of client and bank deposits and other financial liabilities maturing within 1 year is more or less equal to their carrying amount. When calculating the fair value of financial liabilities with residual maturity above 1 year, the present value of expected payments is calculated based on the current interest rate curves. No difference was observed between this measurement and the carrying amount, as a result of which the fair value was not adjusted.

Also, deferred tax assets of PLN 20 million were recognized in connection with the acquired assets and liabilities accepted as a result of the merger.

Provisional purchase price allocation	Carrying amount	Adjustment to fair value	Fair value
Assets	**208**	**26**	**234**
Property, plant and equipment	7	-	7
Loan receivables from clients	137	6	143
Receivables	40	-	40
Cash and cash equivalents	21	-	21
Other assets	3	20	23
Liabilities	**336**	**-**	**336**
Other provisions	13	-	13
Financial liabilities	320	-	320
Other liabilities	3	-	3
Fair value of acquired net assets	**(128)**	**26**	**(102)**
Subsidy from the Bank Guarantee Fund			96
Goodwill			**6**

Goodwill of PLN 6 million was fully covered by an impairment loss.

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

2.1 Composition of the parent company's Management Board

From 1 January 2019, 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.

On 27 March 2019 the PZU Supervisory Board adopted a resolution to appoint Paweł Surówka to the PZU Management Board for the new term of office and entrusted him with discharging the function of CEO of PZU SA.

The appointment of Paweł Surówka was for the joint term of office commencing as of the date on which the PZU Supervisory Board resolution on his appointment was adopted and will span three full financial years from 2020-2022.

On 28 March 2019, the PZU Supervisory Board adopted resolutions to appoint the following persons to the PZU Management Board for its new term of office:

- Tomasz Kulik, entrusting him with discharging the function of PZU Management Board Member,
- Maciej Rapkiewicz, entrusting him with discharging the function of PZU Management Board Member,
- Małgorzata Sadurska, entrusting her with discharging the function of PZU Management Board Member,
- Marcin Eckert, entrusting him with discharging the function of PZU Management Board Member,
- Adam Brzozowski, entrusting him with discharging the function of PZU Management Board Member,
- Elżbieta Häuser-Schöneich, entrusting her with discharging the function of PZU Management Board Member.

Adam Brzozowski and Elżbieta Häuser-Schöneich were appointed on the day following the day of holding the PZU Ordinary Shareholder Meeting approving the financial statements for the 2018 financial year for a joint term of office commencing at the time of appointing the President of the PZU Management Board and spanning the three full financial years from 2020 to 2022.

The other persons were appointed on 28 March 2019 for a joint term of office commencing at the time of appointing the President of the PZU SA Management Board and spanning the three full financial years from 2020 to 2022.

Roger Hodgkiss served in the capacity of PZU Management Board Member until the date of PZU's Ordinary Shareholder Meeting under the principle of discharging his mandate according to Article 369 § 4 of the Commercial Company Code.

As at the date of conveying this periodic report, the PZU Management Board consisted of the following persons:

- Paweł Surówka – President of the PZU Management Board;
- Adam Brzozowski – Member of the PZU Management Board;
- Marcin Eckert – Member of the PZU Management Board;
- Elżbieta Häuser-Schöneich – 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.

2.2 Composition of the parent company's Supervisory Board

From 1 January 2019, 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.

On 24 May 2019, the Ordinary Shareholder Meeting of PZU set the number of PZU Supervisory Board members at 11 and appointed the following to the PZU Supervisory Board of the new term of office: Maciej Łopiński, Robert Jastrzębski, Alojzy Nowak, Marcin Chludziński, Agata Górnicka, Robert Śnitko, Elżbieta Mączyńska-Ziemacka, Tomasz Kuczur, Krzysztof Opolski, Maciej Zaborowski. This appointment was for the joint term of office that encompasses three consecutive full financial years 2020-2022.

Moreover, on 24 May 2019, the Prime Minister, acting on behalf of the State Treasury of the Republic of Poland, pursuant to § 20 sec. 7 of the PZU's Articles of Association, appointed Mr. Paweł Górecki to be a PZU SA Supervisory Board Member.

From 24 May 2019, 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;
- Tomasz Kuczur – Supervisory Board Member;
- Elżbieta Mączyńska-Ziemacka – Supervisory Board Member;
- Krzysztof Opolski – Supervisory Board Member;
- Robert Śnitko – Supervisory Board Member;
- Maciej Zaborowski – Supervisory Board Member.

2.3 PZU Group Directors

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

From 1 January 2019, the following persons were PZU Group Directors:

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

(in millions of PLN)

Tomasz Karusewicz was dismissed from serving in his capacity of a PZU Group Director as of 30 April 2019. From 1 to 24 May 2019 Roger Hodgkiss served as a PZU Życie Group Director. As of 25 May 2019, Adam Brzozowski was appointed as a Group Director at PZU Życie. As at the date of conveying this periodic report the following persons were PZU Group Directors:

- Aleksandra Agatowska (PZU);
- Adam Brzozowski (PZU Życie);
- Bartłomiej Litwińczuk (PZU);
- Dorota Macieja (PZU);
- Roman Pałac (PZU).

3. Key accounting policies, key estimates and judgments

Detailed accounting policies and critical estimates and judgments are presented in the consolidated financial statements of the PZU Group for 2018.

The accounting policies and calculation methods used in these condensed interim financial statements are the same as those used in the consolidated financial statements of the PZU Group for 2018, except for the changes described below.

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

3.1.1. Amendments to the applied IFRS

3.1.1.1. Standards, interpretations and amended standards effective from 1 January 2019

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

Standard/interpretation	Approving regulation	Comments
IFRS 16 – Leases	1986/2017	The effect of the application of IFRS 16 is described in section 3.1.2.
Amendment to IFRS 9 – prepayment features with negative compensation	498/2018	Certain options, which force a lender to accept reduced compensation for granting financing (in the case of negative compensation) failed to pass the SPPI test; accordingly any instruments containing such options could not 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 did not affect the PZU Group's consolidated financial statements.
IFRIC 23 interpretation – Uncertainty over Income Tax Treatments	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 had no effect on the PZU Group's consolidated financial statements.
Amendment to IAS 28 – Long-term interests in associates and joint ventures	237/2019	According to the amended IAS 28, long-term interests 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 did not affect the PZU Group's consolidated financial statements.

(in millions of PLN)

Standard/interpretation	Approving regulation	Comments
Amendments to IAS 19 Employee Benefits	402/2019	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. The change did not affect the PZU Group's consolidated financial statements.
Annual improvements to IFRS 2015-2017	412/2019	The amendments pertain to: 1st IFRS 3 - the amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; 2nd IFRS 11 - the amendments clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. 3rd IAS 12 - the amendments specify that any income tax consequences of dividends (i.e. profit distribution) should be recognized in the profit and loss account, regardless of how the tax arises; 4th IAS 23 - the amendments clarify that if any specific 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 did not affect the PZU Group's consolidated financial statements.

3.1.2. IFRS 16 – Leases

IFRS 16 has replaced IAS 17 *Leases* and any interpretations related to this standard and has introduced a full model of identification and settlement of leases in the lessors' and lessees' financial statements. The most important change pertains to lessees, for which the new standard eliminates the distinction between financial leases and operating leases.

The recognition of operating leases in the statement of financial position has resulted in the recognition of a new asset (the right to use the leased object) and a new liability (the liability of remitting lease payments).

Recognition of leases on the lessor's side has in most cases remained unchanged due to the maintenance of the breakdown between operating leases and financial leases.

Applying IFRS 16 the PZU Group made the following assumptions and adopted the following practical approaches permitted by the standard:

- As at 1 January 2019 a simplified approach has been applied in accordance with section C5(b) of IFRS 16. Comparative data were not transformed, and the total effect of the first application of IFRS 16 was recognized as an adjustment to the opening balance of retained earnings on the first application date.
- In the case of leases previously classified as operating leases in accordance with IAS 17 lease assets and liabilities were measured at present value of the remaining lease payments, discounted by the lessee's marginal interest rate.
- A single discount rate was used for the portfolio of lease contracts with features that are generally similar.
- The rules concerning short-term leases were applied for operating leases whose lease term ends within 12 months of the day of first application of IFRS 16.
- If a contract contained a lease extension or termination option then knowledge obtained after the fact was used in order to determine the term of the lease.

The recognition of assets and liabilities in respect of lease is based on a subjective evaluation of the Management Board, taking into account interpretations related to the application of IFRS 16. The subjective evaluation and the effects of the application of the new standard as presented below may change as a result of new interpretations of IFRS 16 or changes to the general practice of application of new accounting standards.

(in millions of PLN)

In the consolidated profit and loss account for 2019, fees related to lease and rental were replaced by the amortization of the right-of-use asset of the leased object and by interest expenses on lease liabilities.

The effect of the application of IFRS 16 on the statement of financial position is presented in the table.

Items of the statement of financial position	31 December 2018 (under IAS 17)	Recognition of lease contracts	1 January 2019 (under IFRS 16)
Property, plant and equipment	3,184	1,246	4,430
Investment property	1,697	50	1,747
Financial liabilities	236,316	1,296	237,612

On the date when the leased asset is available for use, the PZU Group recognizes the right-of-use asset and the lease liability.

In accordance with section 5 of IFRS 16, the PZU Group has taken advantage of the exemptions of short-term leases and for leases for which the underlying asset has a low value. Low value assets were deemed to be assets with a value equal to or lower than PLN 20 thousand.

Pursuant to item 4 of IFRS 16, the PZU Group does not apply this standard to intangible assets.

On initial recognition:

- the lease liability is measured at the present value of the outstanding lease payments, including fixed lease payments less any applicable lease incentives, variable lease payments that depend on an index or rate, the amounts that the lessee expects to pay within the guaranteed residual value, the exercise price of the call option, if likely to be exercised, and penalties for terminating the lease if the option is available;
- right-of-use assets are measured at cost, which includes the initial lease liability amount, any lease payments paid on or before the commencement date, less any lease incentives received, all initial costs incurred by the lessee, and an estimate of the costs to be incurred in disassembling and removing the asset, renovating the site where it was located, if the lease contract so requires.

The PZU Group recognized assets and liabilities in respect of lease at a net amount. The VAT amount is recognized in expenses of the current period.

Lease payments are discounted using the interest rate implicit in the lease, if it can be easily determined, or the lessee's marginal interest rate.

The lessee's marginal rate is calculated as the sum of the risk-free rate and fixed risk spread. For all contracts ending on the same date and with a fixed amount of monthly payments (this group includes most lease contracts in the PZU Group) a fixed contract discount rate has been calculated.

In subsequent periods:

- the right-of-use asset is measures using the cost less depreciation and impairment model;
- the liability is measured at amortized cost.

Right-of-use assets are recognized jointly with property, plant and equipment or investment property, respectively, while lease liabilities as financial liabilities.

3.1.3. Standards, interpretations and amended standards not yet effective

- Not approved by the European Commission:

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
IFRS 17 – Insurance contracts	18 May 2017	1 January 2022	The purpose of the standard is to establish the uniform accounting policy for all types of insurance contracts, including the reinsurance contracts held by the insurer. Introduction of this unified standard should ensure comparability of financial reports between different entities, states and capital markets. The new standard defines insurance contract as a contract under which one entity accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The scope of the standard does not cover, among others, investment contracts, product warranties, loan guarantees, catastrophe bonds and so-called weather derivatives (contracts requiring payment based on the climatic, geological factor or another physical variable that is not specific to the party to the contract). The standard introduces a definition of contract boundary, defining its beginning as the beginning of coverage, the date when first premium becomes due, the moment when facts and circumstances indicate that the contract belongs to the group of onerous contracts - whichever is earliest. The end of the contract boundary occurs when the insurer has the right or practical ability to reassess the risk for a particular policyholder or a policy group, and the premium measurement does not cover the risk related to future periods. In accordance with IFRS 17, contracts will be measured by one of the following methods: • General Measurement Model, GMM – the basic measurement model, wherein the total value of the insurance liability is calculated as the sum of: ○ discounted value of the best estimate of future cash flows - expected (probability-weighted) cash flows from premiums, claims, benefits, acquisition expenses and costs, ○ risk adjustment, RA – individual estimate of the uncertainty related to the quantity and time of the future cash flows, and ○ contractual service margin (CSM) – representing an estimate of future profits recognized during the policy term. The CSM value is sensitive to changes in estimates of cash flows, resulting e.g. from changed non-economic assumptions. CSM cannot be a negative value – any losses on the contract shall be recognized immediately in the profit and loss account; • premium allocation approach, PAA – a simplified model which can be applied to measurement of insurance contracts with the coverage period below 1 year or where its application does not lead to significant changes in relation to GMM. In this model, liability for remaining coverage is analogous to the provision for unearned premiums mechanism, without separate presentation of RA and CSM, while the liability for incurred claims is measured using the GMM (without calculating CSM). • variable fee approach, VFA – model used for insurance contracts with direct profit sharing. The liability value is calculated in the same manner as in the GMM, the CSM value is additionally sensitive to changes in economic assumptions. IFRS 17 provides for separate recognition of reinsurance contracts from reinsured insurance contracts. The cedent shall measure reinsurance contracts by the modified GMM method or, if possible, by the PAA method. Modifications of the GMM method arise

(in millions of PLN)

Name of standard/ interpretation	Date of issue by IASB	Effective date (according to IASB)	Comments
			above all from the fact that reinsurance contracts are usually assets, not liabilities, and the cedent pays a remuneration to the reinsurer rather than deriving profits from the contract. Modifications are also supposed to reduce discrepancies arising from separate recognition of the reinsurance contract from reinsured insurance contracts. In the case of reinsurance contracts, both the profit and the loss calculated as at the contract recognition are recognized in the statement of financial position and settled through the reinsurance coverage period. The assumptions for reinsurance contract measurement shall be consistent with those used for reinsured insurance contract measurement. In addition, measurement shall take into account the risk that the reinsurer fails to fulfill its obligations. In mid 2018 PZU Group formally launched project work to implement a standard in all PZU Group insurance companies. As part of the project, PZU Group works, among others, on: • analyzing the gap in existing IT processes, tools and systems; • determining new components necessary to be implemented in processes and areas which will be significantly affected by the implementation of IFRS 17; • analyzing the current product offer in terms of segmentation and principles of measurement in accordance with IFRS 17. Despite publishing the content of IFRS 17, IASB continues the works on its final wording. For this reason, the standard version which will be finally approved by a European Commission Regulation will differ from the present text. The IFRS 17 implementation will have a fundamental impact both on the processes in insurance entities and on the financial reporting of PZU Group. At the present stage of the IFRS 17 implementation project and due to the potential changes in its content, it is not possible to estimate the effect of application of IFRS 17 on PZU Group's comprehensive income and equity.
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 will 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 exert a significant influence on 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 not have a 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.

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

The changes that have been introduced as compared to the condensed interim consolidated financial statements for the 6 months ended 30 June 2018 are described in the items below.

3.2.1. Change in the presentation of the result on the sale and the result on material modification of accounts receivable

To reflect better the economic nature of the transaction, the result on the sale and the result on material modification of accounts receivable has been transferred.

3.2.2. Change in the presentation of recoveries from credit receivables transferred off-balance sheet

To reflect better the economic nature of the transaction, the presentation of recoveries from credit receivables transferred off-balance sheet was modified. Since such allowances are made regularly and are an element of ordinary activity in managing irregular accounts receivable, the value of recoveries was transferred from "Other operating income" to "Movement in allowances for expected credit losses and impairment losses on financial instruments".

3.2.3. Margin on foreign exchange transactions

To reflect better the economic nature of revenue generated on the margin on foreign exchange transactions, it has been moved from "Net investment income" to "Revenue from commissions and fees".

3.2.4. Changes stemming from the application of IFRS 9

Changes were made to the PZU Group's consolidated financial statements for 2018 in terms of how the allowances for expected credit losses are calculated and how the assets acquired in transactions to take over banks are allocated to baskets at the PZU Group level. The data for H1 2018 were transformed in accordance with the methodology used in the PZU Group's consolidated financial statements for 2018 and in the condensed interim consolidated financial statements for H1 2019.

(in millions of PLN)

3.2.5. 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.

Consolidated profit and loss account	1 January - 30 June 2018 *(historical)*	item 3.2.1	item 3.2.2	item 3.2.3	item 3.2.4	1 January - 30 June 2018 *(restated)*
Revenue from commissions and fees	1,673	1	-	356	-	2,030
Net investment income	5,594	1	-	(356)	(86)	5,153
Net result on realization of financial instruments and investments	99	(28)	-	-	-	71
Movement in allowances for expected credit losses and impairment losses on financial instruments	(838)	26	5	-	(5)	(812)
Other operating income	800	-	(5)	-	-	795
Profit before tax	3,147	-	-	-	(91)	3,056
Income tax	(789)	-	-	-	18	(771)
Net profit	**2,358**	**-**	**-**	**-**	**(73)**	**2,285**
- profit attributable to the equity holders of the Parent Company	1,425	-	-	-	(15)	1,410
- profit attributable to holders of non-controlling interests	933	-	-	-	(58)	875

Consolidated statement of comprehensive income	1 January - 30 June 2018 *(historical)*	Correction – item 3.2.4	1 January - 30 June 2018 *(restated)*
Net profit	2,358	(73)	2,285
Other comprehensive income	(40)	-	(40)
Total net comprehensive income	**2,318**	**(73)**	**2,245**
- comprehensive income attributable to equity holders of the Parent Company	1,324	(15)	1,309
- comprehensive income attributable to holders of non-controlling interest	994	(58)	936

Consolidated statement of changes in equity	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Historical data			
Effect of the application of IFRS 9 and other changes	(454)	(1,042)	(1,496)
Net profit (loss)	1,425	933	2,358
Equity as at 30 June 2018	13,280	21,332	34,612
Correction – item 3.2.4			
Effect of the application of IFRS 9 and other changes	(58)	(104)	(162)
Net profit (loss)	(15)	(58)	(73)
Equity as at 30 June 2018	(73)	(162)	(235)
Restated data			
Effect of the application of IFRS 9 and other changes	(512)	(1,146)	(1,658)
Net profit (loss)	1,410	875	2,285
Equity as at 30 June 2018	13,207	21,170	34,377

(in millions of PLN)

Consolidated cash flow statement	1 January - 30 June 2018 *(historical)*	Adjustment	1 January - 30 June 2018 *(restated)*
Profit before tax	3,147	(91)	3,056
Adjustments	(7,983)	91	(7,892)
Movement in loan receivables from clients	(6,872)	(244) [4)]	(7,116)
Realized gains/losses from investing activities and impairment losses	715	(26) [1)]	689
Net foreign exchange differences	44	356 [3)]	400
Income tax paid	(957)	(6) [4)]	(963)
Other adjustments	892	11 [4)]	903
Net cash flows from operating activities	**(4,836)**	**-**	**(4,836)**

1) Change described in section 3.2.1.
2) Change described in section 3.2.2.
3) Change described in section 3.2.3.
4) Change described in section 3.2.4.

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

On 24 May 2019 the PZU Ordinary Shareholder Meeting adopted a resolution to distribute net profit for 2018. This matter is described in section 15.

On 26 June 2019, Pekao's Ordinary Shareholder Meeting adopted a resolution on the distribution of 2018 net profit, earmarking PLN 1,732 million, i.e. PLN 6.60 per share to be paid in dividends. The record date fell on 10 July 2019 and the dividend payout date on 30 July 2019. PZU received a dividend of PLN 347 million.

5. Corrections of errors from previous years

During the 6-month period from 1 January to 30 June 2019, no corrections of errors were made from previous years.

6. Material events after the end of the reporting period

No material events transpired after the end of the reporting period save for the issues described below.

6.1 Repayment of PZU Finance AB (publ.) bonds

On 3 July 2019, PZU Finance AB (publ.), a subsidiary company of PZU, repaid the entire indebtedness with the due interest on bonds with the par value of EUR 850 million.

6.2 Opening of a long-term bond issue program by Alior Bank

On 5 August 2019, the Supervisory Board of Alior Bank, in accordance with a motion submitted by Alior Bank's Management Board, gave its consent for the launch of Alior Bank's Long-Term Bond Issue Program and authorized the Management Board to repeatedly contract financial liabilities under this Program by issuing unsecured bonds. The total par value of the Program will not exceed PLN 5 billion.

Additionally, the Alior Bank's Supervisory Board, in accordance with a motion submitted by Alior Bank's Management Board, agreed to close Alior Bank's bond issue program established by a resolution adopted by the Alior Bank Management Board on 29 July 2015 and approved by a resolution adopted by the Alior Bank Supervisory Board on 10 August 2015.

(in millions of PLN)

7. Supplementary notes to the condensed interim consolidated financial statements

7.1 Gross written premiums

Gross written premiums	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premiums in non-life insurance	3,798	7,607	3,955	7,692
In direct insurance	3,804	7,607	3,979	7,703
In indirect insurance	(6)	-	(24)	(11)
Gross written premiums in life insurance	2,140	4,232	2,095	4,189
Individual insurance premiums	401	760	373	745
Individually continued insurance premiums	506	1,011	502	1,001
Group insurance premiums	1,233	2,461	1,220	2,443
Total gross written premiums	**5,938**	**11,839**	**6,050**	**11,881**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Accident and sickness insurance (group 1 and 2)	175	357	149	310
Motor third party liability insurance (group 10)	1,468	2,903	1,547	3,001
Other motor insurance (group 3)	977	1,982	966	1,942
Marine, aviation and transport insurance (groups 4, 5, 6, 7)	25	45	28	45
Insurance against fire and other property damage (groups 8 and 9)	771	1,511	916	1,638
TPL insurance (groups 11, 12, 13)	199	437	189	420
Credit and suretyship (groups 14, 15)	23	43	24	47
Assistance (group 18)	133	259	121	235
Legal protection (group 17)	3	6	2	5
Other (group 16)	30	64	37	60
Total	**3,804**	**7,607**	**3,979**	**7,703**

(in millions of PLN)

7.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Banking activity	861	1,664	851	1,671
Margin on foreign exchange transactions with clients	204	388	184	356
Brokerage fees	26	52	39	87
Fiduciary activity	15	30	18	34
Payment card and credit card services	232	439	208	400
Fees on account of insurance intermediacy activities	17	36	28	60
Credits and loans	101	195	119	220
Bank account-related services	103	204	105	213
Transfers	78	153	78	153
Cash operations	24	47	26	50
Receivables purchased	13	23	10	19
Suretyship, letters of credit, collections, promises	18	38	18	36
Other commission	30	59	18	43
Revenue and payments received from funds and mutual fund companies	128	252	137	273
Pension insurance	35	69	44	84
Other	8	8	1	2
Total revenue from commissions and fees	**1,032**	**1,993**	**1,033**	**2,030**

7.3 Net investment income

Net investment income	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Interest income, including:	3,188	6,106	2,752	5,423
Loan receivables from clients	2,326	4,559	2,097	4,040
Debt securities measured at fair value through other comprehensive income	289	495	189	437
Debt securities measured at amortized cost	351	616	301	615
Buy-sell-back transactions	20	35	20	37
Term deposits with credit institutions	25	53	32	63
Loans	60	126	43	84
Receivables purchased	28	62	20	55
Hedge derivatives	78	137	40	70
Receivables	-	1	-	1
Cash and cash equivalents	11	22	10	21
Dividend income, including:	28	29	45	46
Investment financial assets measured at fair value through profit or loss	6	7	25	26
Investment financial assets measured at fair value through other comprehensive income	22	22	20	20
Income on investment property	68	133	64	128
Foreign exchange differences	(72)	24	(360)	(400)
Investment activity expenses	(6)	(12)	(4)	(11)
Investment property maintenance expenses	(31)	(58)	(22)	(49)
Other	6	12	9	16
Total net investment income	**3,181**	**6,234**	**2,484**	**5,153**

(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 April – 30 June 2019**	**1 January - 30 June 2019**	**1 April – 30 June 2018** (restated)	**1 January - 30 June 2018** (restated)
Investment financial assets	57	147	84	118
Debt instruments measured at fair value through other comprehensive income	26	56	59	92
Financial instruments measured at fair value through profit or loss	27	78	23	22
Equity instruments	(1)	3	(5)	6
Participation units and investment certificates	24	44	(6)	(4)
Debt instruments	4	31	34	20
Instruments measured at amortized cost	4	13	2	4
Loan receivables from clients measured at amortized cost	12	19	1	1
Derivatives	(3)	(1)	(58)	(18)
Short sale	2	-	1	3
Receivables	(14)	(58)	(13)	(27)
Investment property	-	-	(6)	(6)
Net result on realization of financial instruments and investments	**54**	**107**	**9**	**71**

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 April – 30 June 2019**	**1 January - 30 June 2019**	**1 April – 30 June 2018** (restated)	**1 January - 30 June 2018** (restated)
Investment financial assets	(15)	26	(13)	3
Debt instruments measured at fair value through other comprehensive income	(3)	4	(5)	(2)
Instruments measured at amortized cost	(12)	22	(8)	5
- debt instruments	(13)	(9)	-	8
- term deposits with credit institutions	(1)	(1)	(1)	(1)
- loans	2	32	(7)	(2)
Loan receivables from clients	(669)	(1,066)	(354)	(769)
Measured at amortized cost	(671)	(1,048)	(353)	(773)
Measured at fair value through other comprehensive income	2	(18)	(1)	4
Receivables	(17)	-	(3)	(41)
Associates	(3)	(3)	(5)	(5)
Movement in allowances for expected credit losses and impairment losses on financial instruments, total	**(704)**	**(1,043)**	**(375)**	**(812)**

(in millions of PLN)

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 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Investment financial instruments measured at fair value through profit or loss	(64)	309	102	(9)
Equity instruments	(12)	84	(57)	(211)
Debt securities	(105)	32	141	246
Participation units and investment certificates	53	193	18	(44)
Derivatives	215	121	246	275
Measurement of liabilities to members of consolidated mutual funds	(1)	(4)	9	15
Investment contracts for the client's account and risk (unit-linked)	(1)	(6)	-	10
Investment property	(60)	(72)	117	110
Loan receivables from clients	4	(1)	2	-
Net movement in fair value of assets and liabilities measured at fair value, total	**93**	**347**	**476**	**401**

7.7 Other operating income

Other operating income	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Revenues on the sales of products, merchandise and services by non-insurance companies	148	293	133	297
Revenues from direct claims handling on behalf of other insurance undertakings	58	109	47	100
Reversal of provisions [1)]	93	188	54	239
Reimbursement of the costs of pursuit of claims	10	21	8	14
Reinsurance commissions and profit participation	14	29	13	22
Reversal of impairment losses for non-financial assets	6	6	8	8
Indemnity received	5	13	5	9
Interest for late payment of amounts due under direct insurance and outward reinsurance	9	16	5	14
Gain from sale of property, plant and equipment	1	1	4	10
Other	44	81	29	82
Other operating income, total	**388**	**757**	**306**	**795**

[1)] Including a reversal of PLN 182 million by the banks of a provision for guarantees and sureties given (1 January - 30 June 2018: PLN 233 million).

(in millions of PLN)

7.8 Claims, benefits and movement in technical provisions

Claims, benefits and movement in technical provisions	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Claims, benefits and movement in technical provisions	**4,013**	**8,124**	**3,773**	**7,504**
In non-life insurance	2,386	4,709	2,262	4,415
- claims and benefits	2,119	3,960	1,786	3,565
- movement in technical provisions	53	335	283	462
- claims handling expenses	214	414	193	388
In life insurance	1,627	3,415	1,511	3,089
- claims and benefits	1,495	3,111	1,485	3,077
- movement in technical provisions	99	238	(6)	(54)
- claims handling expenses	33	66	32	66
Reinsurers' share in claims, benefits and movement in technical provisions	**(42)**	**(195)**	**(54)**	**(159)**
In non-life insurance	(42)	(195)	(54)	(159)
Total net insurance claims and benefits	**3,971**	**7,929**	**3,719**	**7,345**

7.9 Fee and commission expenses

Fee and commission expenses	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Costs of card and ATM transactions, including card issue costs	139	239	114	202
Commissions on acquisition of banking clients	22	41	19	35
Fees for the provision of ATMs	11	21	(1)	21
Costs of awards to banking clients	4	8	4	7
Costs of bank transfers and remittances	11	21	10	19
Additional services attached to banking products	7	13	7	14
Brokerage fees	4	8	3	8
Costs of administration of bank accounts	1	2	1	2
Costs of banknote operations	3	7	4	7
Fiduciary activity expenses	4	9	5	9
Other commission	11	22	16	29
Total fee and commission expenses	**217**	**391**	**182**	**353**

7.10 Interest expenses

Interest expenses	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Term deposits	255	504	268	541
Current deposits	135	268	103	201
Own debt securities issued	111	220	94	190
Hedge derivatives	2	3	1	3
Loans	3	5	3	5
Repurchase transactions	11	21	16	30
Bank loans contracted by PZU Group companies	9	16	3	5
Leases	7	14	-	-
Other	7	14	11	17
Total interest expenses	**540**	**1,065**	**499**	**992**

(in millions of PLN)

7.11 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Consumption of materials and energy	55	113	70	144
Third party services	391	762	426	828
Taxes and charges	28	56	23	49
Employee expenses	1,208	2,382	1,256	2,425
Depreciation of property, plant and equipment	152	306	95	189
Amortization of intangible assets	94	188	82	170
Other, including:	811	1,609	775	1,558
- commissions in insurance activities	629	1,251	604	1,199
- advertising	67	129	72	130
- remuneration of group insurance administrators in work establishments	52	103	51	103
- other	63	126	48	126
Movement in deferred acquisition expenses	(13)	(44)	(7)	(48)
Administrative, acquisition and claims handling expenses, total	**2,726**	**5,372**	**2,720**	**5,315**

7.12 Other operating expenses

Other operating expenses	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Levy on financial institutions	284	569	273	542
Expenses of the core business of non-insurance and non-banking companies	188	358	178	356
Direct claims handling expenses on behalf of other insurance undertakings	60	113	50	103
Compulsory payments to insurance market institutions and banking market institutions	35	82	20	53
Bank Guarantee Fund	32	547	47	277
Insurance Indemnity Fund	17	34	18	35
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	1	19	1	21
Expenditures for prevention activity	6	19	22	31
Establishment of provisions [1)]	225	333	89	249
Amortization of intangible assets purchased in company acquisition transactions	58	116	87	167
Recognition of impairment losses for non-financial assets	2	4	-	10
Donations	-	23	-	24
Costs of pursuit of claims	19	38	23	38
Other	38	94	87	180
Other operating expenses, total	**965**	**2,349**	**895**	**2,086**

[1)] Including recognition of a provision for guarantees and sureties given by the banks int he amount of PLN 214 million (1 January - 30 June 2018: PLN 216 million).

(in millions of PLN)

7.13 Earnings per share

Earnings per share	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Net profit attributable to the equity holders of the parent company	734	1,481	783	1,410
Weighted average basic and diluted number of common shares	863,314,163	863,268,725	863,374,918	863,442,942
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)	(208,837)	(254,275)	(148,082)	(80,058)
Basic and diluted earnings (losses) per common share (in PLN)	0.85	1.72	0.91	1.63

In the 6-month period ended 30 June 2019, 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 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Recognized through profit or loss	(427)	(902)	(431)	(771)
- current tax	(482)	(836)	(582)	(915)
- deferred tax	55	(66)	151	144
Recognized in other comprehensive income (deferred tax)	(84)	(112)	37	23
Total amount of current and deferred tax	**(511)**	**(1,014)**	**(394)**	**(748)**

Income tax on other comprehensive income items	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross other comprehensive income	427	578	(142)	(63)
Income tax	(84)	(112)	37	23
Investment financial instruments measured at fair value through other comprehensive income	(73)	(84)	35	31
Measurement of loan receivables from clients	(2)	(4)	-	(9)
Cash flow hedging transactions	(9)	(24)	2	1
Net other comprehensive income	**343**	**466**	**(105)**	**(40)**

7.15 Goodwill

Goodwill	30 June 2019	31 December 2018
Pekao [1)]	2,269	2,269
Alior Bank	746	746
Lietuvos Draudimas AB [2)]	471	476
Mass insurance segment in non-life insurance (Link4)	221	221
AAS Balta	38	39
Medical companies	170	115
Other	5	5
Total goodwill	**3,920**	**3,871**

[1)] Includes goodwill on the acquisition of Pekao Investment Management SA.
[2)] Includes goodwill on acquisition of the Lietuvos Draudimas branch in Estonia.

The increased goodwill of medical companies resulted from the acquisition of new entities: Falck CM, Starówka sp. z o.o. and Alergo-Med Tarnów sp. z o.o. More information on these transactions is presented in section 1.4.1.

As a result of the analyses conducted, no impairment losses of goodwill were made in the 6 months ended 30 June 2019, just as in 2018.

(in millions of PLN)

7.16 Intangible assets

Intangible assets by type groups	30 June 2019	31 December 2018
Software, licenses and similar assets	1,248	1,250
Trademarks	611	611
Client relations	837	953
Intangible assets under development	323	354
Other intangible assets	13	12
Total intangible assets	**3,032**	**3,180**

7.17 Other assets

Other assets	30 June 2019	31 December 2018
Reinsurance settlements	62	105
Estimated salvage and subrogation	166	183
Deferred IT expenses	70	72
Accrued direct claims handling receivables	54	56
Inventories	49	51
Payments for taxes on property, means of transport and land	20	3
Payments for the costs of the allowance to the Company Social Benefit Fund	25	-
Accrued commissions	11	6
Other assets	113	86
Total other assets	**570**	**562**

7.18 Property, plant and equipment

Property, plant and equipment by groups by type	30 June 2019	31 December 2018
Plant and machinery	585	529
Means of transport	186	138
Property, plant and equipment under construction	108	198
Real property	3,040	2,078
Other property, plant and equipment	307	241
Total property, plant and equipment	**4,226**	**3,184**

7.19 Loan receivables from clients

Loan receivables from clients	30 June 2019	31 December 2018
Measured at amortized cost	188,119	180,240
Measured at fair value through other comprehensive income	1,543	1,511
Measured at fair value through profit or loss	274	303
Total loan receivables from clients	**189,936**	**182,054**

(in millions of PLN)

Loan receivables from clients – measured at amortized cost	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	166,995	16,409	9,270	6,692	199,366	159,612	16,069	7,855	7,165	190,701
Expected credit losses	(892)	(1,219)	(4,545)	(4,591)	(11,247)	(870)	(1,189)	(3,601)	(4,801)	(10,461)
Net carrying amount	**166,103**	**15,190**	**4,725**	**2,101**	**188,119**	**158,742**	**14,880**	**4,254**	**2,364**	**180,240**

Loan receivables from clients – measured at fair value through other comprehensive income	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Carrying amount	937	606	-	-	1,543	1,511	-	-	-	1,511
Expected credit losses	(6)	(26)	-	-	(32)	(14)	-	-	-	(14)

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.

Loan receivables from clients	30 June 2019	31 December 2018
Retail segment	**101,726**	**97,567**
Operating loans	241	251
Consumer finance	28,826	27,380
Consumer finance loans	2,304	2,563
Loan to purchase securities	72	69
Overdrafts in credit card accounts	1,131	1,124
Loans for residential real estate	68,079	65,092
Other mortgage loans	816	830
Other receivables	257	258
Business segment	**88,210**	**84,487**
Operating loans	34,689	34,371
Car financing loans	25	35
Investment loans	27,110	26,166
Receivables purchased (factoring)	5,377	9,225
Overdrafts in credit card accounts	135	131
Loans for residential real estate	110	128
Other mortgage loans	8,508	8,560
Financial leases	10,066	5,327
Other receivables	2,190	544
Total loan receivables from clients	**189,936**	**182,054**

(in millions of PLN)

7.20 Financial derivatives

Derivatives	30 June 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	**2,358**	**2,947**	**1,971**	**2,933**
Fair value hedging instruments – SWAP transactions	1	156	21	144
Cash flow hedging instruments – SWAP transactions	492	510	374	770
Instruments held for trading, including:	1,865	2,281	1,576	2,019
- FRA transactions	1	1	2	2
- SWAP transactions	1,852	2,269	1,564	2,012
- call options (purchase)	8	1	6	2
- put options (sale)	4	10	4	3
Foreign exchange derivatives	**395**	**373**	**302**	**250**
Cash flow hedging instruments – SWAP transactions	86	23	31	1
Instruments held for trading, including:	309	350	271	249
- forward contracts	139	144	92	131
- SWAP transactions	98	128	115	54
- call options (purchase)	44	19	46	22
- put options (sale)	28	59	18	42
Equity derivatives – held for trading	**89**	**50**	**78**	**49**
- forward contracts	-	-	10	13
- call options (purchase)	89	2	66	2
- put options (sale)	-	48	2	34
Commodity derivatives – held for trading	**95**	**76**	**136**	**133**
- forward contracts	31	19	35	34
- SWAP transactions	26	26	46	45
- call options (purchase)	28	3	21	5
- put options (sale)	10	28	34	49
Total derivatives	**2,937**	**3,446**	**2,487**	**3,365**

(in millions of PLN)

7.21 Investment financial assets

Investment financial assets	30 June 2019				31 December 2018			
	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total	at amortized cost	at fair value through other compre-hensive income	at fair value through profit or loss	Total
Equity instruments	n/a	629	961	1,590	n/a	522	1,220	1,742
Participation units and investment certificates	n/a	n/a	4,498	4,498	n/a	n/a	4,298	4,298
Debt securities	38,708	49,546	5,792	94,046	34,652	38,215	12,176	85,043
Government securities	31,587	35,482	5,348	72,417	27,501	26,167	11,986	65,654
Domestic	31,412	33,171	5,218	69,801	27,349	23,419	10,793	61,561
Fixed rate	28,195	21,798	3,412	53,405	24,074	10,745	8,893	43,712
Floating rate	3,217	11,373	1,806	16,396	3,275	12,674	1,900	17,849
Foreign	175	2,311	130	2,616	152	2,748	1,193	4,093
Fixed rate	175	2,311	130	2,616	152	2,748	1,193	4,093
Other	7,121	14,064	444	21,629	7,151	12,048	190	19,389
Fixed rate	839	5,779	27	6,645	1,323	4,501	39	5,863
Floating rate	6,282	8,285	417	14,984	5,828	7,547	151	13,526
Other, including:	10,068	-	-	10,068	10,582	-	-	10,582
Buy-sell-back transactions	2,858	-	-	2,858	3,278	-	-	3,278
Term deposits with credit institutions	2,667	-	-	2,667	2,769	-	-	2,769
Loans	4,543	-	-	4,543	4,535	-	-	4,535
Investment financial assets, total	**48,776**	**50,175**	**11,251**	**110,202**	**45,234**	**38,737**	**17,694**	**101,665**

Debt securities – measured at amortized cost	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Pur-chased or origina-ted credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	38,390	374	33	-	38,797	34,657	35	33	2	34,727
Expected credit losses	(37)	(19)	(33)	-	(89)	(35)	(7)	(33)	-	(75)
Net carrying amount	**38,353**	**355**	**-**	**-**	**38,708**	**34,622**	**28**	**-**	**2**	**34,652**

Debt securities – measured at fair value through other comprehensive income	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Pur-chased or origina-ted credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	49,376	170	-	-	49,546	38,142	73	-	-	38,215
Expected credit losses	(30)	(6)	-	-	(36)	(37)	(3)	-	-	(40)

(in millions of PLN)

Term deposits with credit institutions	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	2,668	1	9	-	2,678	2,770	1	9	-	2,780
Expected credit losses	(2)	-	(9)	-	(11)	(2)	-	(9)	-	(11)
Net carrying amount	**2,666**	**1**	**-**	**-**	**2,667**	**2,768**	**1**	**-**	**-**	**2,769**

Loans	30 June 2019					31 December 2018				
	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total	Basket 1	Basket 2	Basket 3	Purchased or originated credit-impaired (POCI)	Total
Gross carrying amount	4,510	61	-	-	4,571	4,595	-	-	-	4,595
Expected credit losses	(25)	(3)	-	-	(28)	(60)	-	-	-	(60)
Net carrying amount	**4,485**	**58**	**-**	**-**	**4,543**	**4,535**	**-**	**-**	**-**	**4,535**

The allowance pertaining to debt investment financial assets measured at fair value through other comprehensive income is recognized in the revaluation reserve and does not lower the carrying amount of assets.

Equity instruments measured at fair value through other comprehensive income	30 June 2019	31 December 2018
Grupa Azoty SA	346	257
Biuro Informacji Kredytowej SA	191	173
Polimex-Mostostal SA	37	38
PSP sp. z o.o.	24	22
Krajowa Izba Rozliczeniowa SA	14	13
Other	17	19
Equity instruments measured at fair value through other comprehensive income, total	**629**	**522**

(in millions of PLN)

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

Carrying amount of debt securities issued by governments other than the Polish government	30 June 2019	31 December 2018
Lithuania	716	638
United States	318	957
Latvia	130	90
Ukraine	105	90
Romania	100	157
Croatia	99	152
Indonesia	87	71
Columbia	80	42
Brazil	77	57
Russia	76	69
Bulgaria	74	75
Panama	70	36
Philippines	59	42
Oman	56	41
Hungary	56	117
Uruguay	55	42
Dominican Republic	52	42
South Africa	50	35
Other	356 [1)]	1,340 [2)]
Total	**2,616**	**4,093**

[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: Argentina, Australia, Azerbaijan, Bahrain, Belarus, Belgium, Bolivia, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, France, Germany, Ghana, Guatemala, Holland, Honduras, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Mexico, Mongolia, Morocco, Namibia, Nigeria, Paraguay, Peru, Qatar, Saudi Arabia, Senegal, Serbia, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, Uzbekistan, United Kingdom, Vietnam.

[2)] The Other line item states Albania, Argentina, Armenia, Australia, Azerbaijan, Belarus, Belgium, Bolivia, Cameroon, Chile, Costa Rica, Côte d'Ivoire, Denmark, Egypt, Ethiopia, France, Germany, Ghana, Greece, Guatemala, Holland, Honduras, India, Ireland, Italy, Jamaica, Jordan, Kazakhstan, Kenya, Morocco, Mexico, Mongolia, Namibia, Nigeria, Paraguay, Peru, Portugal, Senegal, Serbia, Slovenia, Spain, Sri Lanka, Sweden, Trinidad and Tobago, Turkey, United Kingdom, Vietnam.

Exposure to debt securities issued by corporations and local government units

Issuer	30 June 2019	31 December 2018
National Bank of Poland	1,800	2,999
Domestic local governments	6,302	5,710
Foreign banks	4,468	3,495
Companies from the WIG-Energy Index	2,292	1,183
Manufacturing	1,145	978
Financial and insurance services	1,017	725
Public utility services	743	759
Companies from the WIG-Banks Index	556	452
Transportation and storage	732	1,232
Energy and fuel sector companies (including: WIG-Fuels index companies)	637	1,173
Mining and quarrying (including companies included in the WIG-Mining index)	477	130
Construction and real estate market service	409	158
Other professional, scientific and technical activity	421	136
Arts, entertainment and recreation activity (including WIG - hotels and restaurants index companies)	323	188
Information and communication (including: WIG - Telecommunications index companies)	195	4
Other	112	67
Total	**21,629**	**19,389**

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

7.21.1.1. Capital market

In H1 2019, the yields of 10-year treasury bonds of the US and Germany continued to decrease. In the US yields slid from 2.69% at the outset of the year to 2.00% at the end of June. In Germany, yields fell to record low levels; at the end of June they were -0.33%, compared to 0.25 in the beginning of the year. In both cases, the yield curve flattened. In the USA, the yield curve temporarily reversed at the end of March and since 23 May the interest rate on 3-month treasury bills has continuously exceeded the yield on 10-year bonds. In the past that type of situation ordinarily preceded a recession. Responding to the risk of economic slowdown and lower prices on the financial markets, the US Central Bank (Fed) at the beginning of the quarter did an about-face in monetary policy, signaling the suspension of further interest rate hikes and later it also allowed the possibility of reducing the rates, which in fact happened on 31 July. It also made the decision to bring to an early conclusion the process of shrinking its balance sheet. The European Central Bank (ECB) also reacted to the soft data concerning economic growth and declining long-term inflation expectations by announcing the extension of its policy of stable or lower interest rates until at least the end of 2020. It also decided to introduce a new TLTRO *(targeted longer-term refinancing operations)* program as of September 2019. The ECB is also giving consideration to the possibility of differentiating interest rates depending by the liquidity surpluses deposited by banks (this solution should serve to counteract the adverse consequences of negative interest rates on banks' profitability) and restore the asset purchase program.

The yields of 10-year Polish treasury bonds fell significantly in H1 2019. At the beginning of the year it was 2.85%, but fell to only 2.39% at the end of June. The yields started to decline in May, which was later than on the core markets, since the announced budget expenditures drove 10-year treasury bond yields close to 3% at the end of February. In the beginning of May they shortly crossed the 3% threshold and it was only after the increase in customs duties on Chinese goods by the US President was announced (which increased concerns about the state of the global economic situation) that they started to decline in line with the trend on the core markets. At that time, market expectations for future NBP interest rates decreased along with the market assessments of Poland's credit risk. The spread versus 10-year German bonds that at the beginning of the quarter was 260 basis points increased to 302 basis points early in May, only to drop to 272 basis points at the end of June. At the same time, the yield curve flattened. The yield on one-year treasury bonds grew from 0.90% at the end of 2018 to 1.40% at the end of June 2019.

On the global equity markets, following the declines at the end of last year, the first half of 2019 saw a sudden recovery which halted only for a moment in May after the aggravation of the US-China trade conflict. The change in the policy pursued by the major central banks was conducive to rapid growth in equity prices. In the first half of 2019 the American S&P500 stock index shot up 17.35% while the German DAX index climbed 17.42%.

Polish equities also moved up in the first half of the year. In that period, the WIG index rose 4.3%, much slower than the corresponding indices on the core markets. The WIG20 index climbed just 2.2%, while the prices of smaller cap companies grew relatively faster. The mWIG40 rose by 4.4% while the sWIG80 surged upward 11.8%. Looking at the sector structure, the WIG Telecommunications index noted a particularly strong performance, while the WIG Energy index fell sharply.

7.21.1.2. Interest rate risk and inflation

Over the entire first half of 2019, inflation (measured by CPI) was on average only slightly higher than in H2 2018 (1.8% y/y vs. 1.7% y/y). However the increase in prices of consumer goods and services visibly picked up the pace during the first half of the year. In Q2 of this year, CPI reached on average 2.4% y/y, compared to 1.2% y/y in Q1. CPI growth in H1 was promoted not only by the clear increase in prices of food and fuels – net core inflation rose as well (CPI net of food and energy prices) to 1.8% y/y in Q2 of this year, compared to 1.1% y/y one quarter earlier. The main factor contributing to CPI growth was an increase in prices of services (3.9% y/y in June). Commodity prices, which competed with imports, rose more slowly (2.2% y/y in June).

The NBP interest rates remained stable in H1 2019. The reference interest rate has remained at 1.5% since March 2015. According to the Monetary Policy Board, the current level of interest rates supports the maintenance of the Polish economy on a sustainable growth path and enables it to maintain the macroeconomic equilibrium.

7.21.1.3. FX rates

The EUR to USD exchange rate reached 1.1388 at the end of H1 2019, which was only 0.4% less than at the end of last year. However starting from the end of April until the beginning of June, the common European currency clearly weakened vs. the US dollar, with the exchange rate mostly staying below 1.12. In the first half of the year, the PLN appreciated slightly versus the two main global currencies. The EUR to PLN exchange rate fell by 1.1% from 4.30 at the end of 2018 to 4.25 at the end of June 2019, while the USD to PLN exchange rate decreased by 0.7% from 3.76 to 3.73. The CHF to PLN exchange rate was 3.83 at the end of June 2019, compared to 3.82 at the end of 2018.

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

In the 6-month period ended 30 June 2019, 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 loans and debt securities for which an active market does not exist is measured using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds adjusted by the credit spread. It is calculated as at the newest issue date based on the issue price and leads to parallel shifting of the yield curve for government bonds by a fixed amount along its whole length or as the difference between the yield of 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.

7.22.1.3. Participation units and investment certificates of mutual funds

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. In the event that participation units and investment certificates are quoted on an active market, their fair value is determined on the basis of quotations publicly available on an active market.

7.22.1.4. 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 (IRSs) 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.

7.22.1.5. Loan receivables from clients

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

Loan receivables from clients 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.

7.22.1.6. Properties measured at fair value

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

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

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

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

Property measured at fair value is appraised by licensed appraisers. The acceptance of each such measurement is additionally preceded by a review conducted by PZU Group companies' 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.

7.22.1.7. 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 multiples, 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.	

(in millions of PLN)

Measured assets	Unobservable data	Description	Impact on measurement
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 designated for sale	Capitalization rate	Capitalization rate is determined through analysis of rates of return obtained in transactions for similar properties.	Negative correlation.
Investment property and property designated for sale	Construction costs	Construction costs are determined based on market construction costs less costs incurred as at the date of measurement.	Positive correlation.
Investment property and property designated for sale	Monthly rental rate per 1 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.	
Own issues and subordinated loans	Issue spread above the market curve	If the historical spread of issues 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	

7.22.3. Assets and liabilities measured at fair value

Assets and liabilities measured at fair value	30 June 2019				31 December 2018			
	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	31,195	11,911	7,069	50,175	22,200	9,329	7,208	38,737
Equity instruments	394	1	234	629	309	1	212	522
Debt securities	30,801	11,910	6,835	49,546	21,891	9,328	6,996	38,215
Investment financial assets measured at fair value through profit or loss	6,092	4,930	229	11,251	12,758	4,684	252	17,694
Equity instruments	787	-	174	961	1,105	-	115	1,220
Participation units and investment certificates	105	4,377	16	4,498	102	4,182	14	4,298
Debt securities	5,200	553	39	5,792	11,551	502	123	12,176
Loan receivables from clients	-	-	1,817	1,817	-	-	1,814	1,814
Measured at fair value through other comprehensive income	-	-	1,543	1,543	-	-	1,511	1,511
Measured at fair value through profit or loss	-	-	274	274	-	-	303	303
Financial derivatives	7	2,831	99	2,937	35	2,384	68	2,487
Investment property	-	144	1,652	1,796	-	141	1,556	1,697
Liabilities								
Derivatives	4	3,386	56	3,446	34	3,295	36	3,365
Liabilities to members of consolidated mutual funds	-	43	-	43	-	266	-	266
Investment contracts for the client's account and risk *(unit-linked)*	-	264	-	264	-	266	-	266
Liabilities on borrowed securities (short sale)	546	-	-	546	120	-	-	120

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy, in the period ended 30 June 2019	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	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Balance at the beginning of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**
Application of IFRS 16	-	-	-	-	-	-	-	-	-	43
Purchase/opening of the position	-	268	-	-	325	10	8	120	-	94
Reclassification from Level II	-	575 [1)]	-	-	-	2 [1)]	-	-	-	-
Reclassification from own properties	-	-	-	-	-	-	-	-	-	2
Profit or loss recognized in the profit and loss account as:	-	79	60	2	3	41	33	(2)	(3)	(42)
- net investment income	-	77	-	-	1	(1)	-	(2)	(3)	-
- net result on realization of financial instruments and properties	-	2	-	-	-	-	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	60	2	2	42	33	-	-	(42)
Profits or losses recognized in other comprehensive income	22	16	-	-	-	-	-	3	-	-
Sale and settlements	-	(454)	-	-	(404)	(22)	(21)	(89)	(26)	(1)
Reclassification to Level II	-	(645) [1)]	-	-	(8)	-	-	-	-	-
Foreign exchange differences	-	-	(1)	-	-	-	-	-	-	-
Balance at the end of the period	**234**	**6,835**	**174**	**16**	**39**	**99**	**56**	**1,543**	**274**	**1,652**

[1)] Information on the restatements is presented in item 7.22.4.2.

(in millions of PLN)

Movement in assets and liabilities classified as Level III of the fair value hierarchy in the year ended 31 December 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	Loan receivables from clients measured at fair value		Investment property
	Equity	Debt	Equity	Investment certificates	Debt			through other comprehensive income	through profit or loss	
Balance at the beginning of the period – classification at the time of applying IFRS 9	**221**	**4,855**	**95**	**-**	**163**	**100**	**52**	**1,556**	**365**	**2,204**
Purchase/opening of the position	-	3,034	-	14	727	16	10	409	3	139
Reclassification from Level I	-	-	2	-	-	-	-	-	-	-
Reclassification from Level II	-	190[1]	-	-	-	-	-	-	-	3
Reclassification from own properties	-	-	-	-	-	-	-	-	-	4
Profit or loss recognized in the profit and loss account as:	-	49	14	-	3	(30)	(9)	29	3	48
- net investment income	-	49	-	-	-	-	-	29	-	-
- net result on realization of financial instruments and properties	-	-	(2)	-	-	(3)	-	-	-	-
- net movement in fair value of assets and liabilities measured at fair value	-	-	16	-	3	(27)	(9)	-	3	48
Profits or losses recognized in other comprehensive income	(9)	(12)	-	-	-	-	-	31	-	-
Sale and settlements	-	(1,056)	-	-	(756)	(18)	(17)	(514)	(68)	(11)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-	(831)
Reclassification to Level II	-	(64)	-	-	(14)	-	-	-	-	-
Foreign exchange differences	-	-	4	-	-	-	-	-	-	-
Balance at the end of the period	**212**	**6,996**	**115**	**14**	**123**	**68**	**36**	**1,511**	**303**	**1,556**

[1] Information on the restatements is presented in item 7.22.4.2.

(in millions of PLN)

7.22.4. Assets and liabilities not measured at fair value

Fair value of assets and liabilities for which it is only disclosed	30 June 2019				31 December 2018			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Entities measured by the equity method – EMC	-	-	6	6	-	-	14	14
Loan receivables from clients measured at amortized cost	-	-	188,733	188,733	-	-	181,635	181,635
Investment financial assets measured at amortized cost	28,661	3,209	20,449	52,319	24,251	2,301	21,541	48,093
Debt securities	28,661	1,229	12,279	42,169	24,251	1,239	11,900	37,390
Buy-sell-back transactions	-	551	2,307	2,858	-	126	3,153	3,279
Term deposits with credit institutions	-	1,429	1,247	2,676	-	936	1,830	2,766
Loans	-	-	4,616	4,616	-	-	4,658	4,658
Liabilities								
Liabilities to banks	-	1,081	6,205	7,286	-	781	5,280	6,061
Liabilities to clients under deposits	-	-	211,554	211,554	-	-	207,668	207,668
Liabilities on the issue of own debt securities [1)]	-	5,991	6,609	12,600	-	5,295	6,800	12,095
Subordinated liabilities [1)]	-	2,365	4,134	6,499	-	2,013	4,043	6,056
Liabilities on account of repurchase transactions	-	299	-	299	-	540	-	540

[1)] The liabilities classified to level II are those whose measurement was not affected by unobservable parameters. They are primarily liabilities on account of bonds issued by Pekao.

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

In the 6-month period ended 30 June 2019, 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.

7.22.4.2. 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 6-month period ended 30 June 2019, the following reclassifications of assets between fair value levels were made:

- reclassification from Level III to Level II was applied to municipal and corporate bonds measured using market information about prices of comparable financial instruments, municipal and corporate bonds for which the estimated credit parameters had no significant impact on their measurement and capital market derivatives because the unobservable factor (correlation) had no significant impact on their measurement,

(in millions of PLN)

- 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 estimated parameter (correlation) exerted a significant impact on the measurement.

In 2018, the following transfers 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;
- reclassification from level III to level II was applied to municipal and corporate bonds measured using market information about prices of comparable financial instruments, corporate bonds for which the estimated credit parameters had no significant impact on their measurement, treasury bonds denominated in Polish zloty for which the estimated spread to benchmark bond had no significant impact on their measurement and a derivative equity market transaction because the unobservable factor (correlation) had no significant impact on their measurement;
- corporate and municipal bonds for which the impact of the estimated parameter (correlation) exerted a significant impact on their measurement were reclassified from Level II to Level III.

7.23 Receivables

Receivables – carrying amount	30 June 2019	31 December 2018
Receivables on direct insurance, including:	2,605	2,574
- receivables from policyholders	2,355	2,438
- receivables from insurance intermediaries	117	112
- other receivables	133	24
Reinsurance receivables	87	115
Other receivables	3,391	3,654
- receivables from disposal of securities and security deposits [1)]	1,324	1,632
- receivables on account of payment card settlements	798	992
- trade receivables	338	340
- receivables from the state budget, other than corporate income tax receivables	232	237
- receivables by virtue of commissions concerning off-balance sheet products	141	178
- prevention settlements	42	46
- receivables from direct claims handling on behalf of other insurance undertakings	27	27
- receivables for acting as an emergency adjuster	13	14
- receivables on account of Corporate Income Tax	5	6
- receivables from security and bid deposits	36	34
- interbank and interbranch receivables	239	7
- receivables on account of a subsidy from the Bank Guarantee Fund	96	-
- other	100	141
Total receivables	**6,083**	**6,343**

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

As at 30 June 2019 and 31 December 2018, 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 June 2019 was PLN 1,034 million (as at 31 December 2018: PLN 939 million).

(in millions of PLN)

7.24 Extent of exposure to credit risk

The subsequent tables present the exposure to credit risk for assets bearing credit risk in the various categories of Fitch ratings (if there is no Fitch rating then a Standard&Poor's or Moody's rating is used instead). The credit risk exposure arising from repo transactions is presented as an exposure to the issuer of the securities taken as collateral.

The table does not include loan receivables from clients and receivables due under insurance contracts. This ensues from the considerable distribution of these asset portfolios meaning, among others, that a significant portion of the receivables comes from entities and private individuals that do not have ratings.

Credit risk assets at 30 June 2019	AAA	AA	A	BBB	BB	B	No rating	Assets at the client's risk	Total
Debt securities measured at amortized cost – carrying amount	-	-	29,531	245	3	-	8,929	-	38,708
- gross carrying amount	-	-	29,539	245	3	-	9,007	-	38,794
- allowance for expected credit losses	-	-	(8)	-	-	-	(78)	-	(86)
Debt securities measured at fair value through other comprehensive income – carrying amount	311	50	36,675	3,924	365	-	8,221	-	49,546
- allowance for expected credit losses [1]	-	-	(4)	(5)	(1)	-	(26)	-	(36)
Debt securities measured at fair value through profit or loss – carrying amount	1	11	4,195	187	19	25	151	1,203	5,792
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	124	3,477	260	173	-	1,427	64	5,525
- gross carrying amount	-	124	3,477	260	173	-	1,438	64	5,536
- allowance for expected credit losses	-	-	-	-	-	-	(11)	-	(11)
Loans – carrying amount	-	-	-	52	608	-	3,883	-	4,543
- gross carrying amount	-	-	-	52	609	-	3,910	-	4,571
- allowance for expected credit losses	-	-	-	-	(1)	-	(27)	-	(28)
Derivatives	1,207	83	745	318	2	-	544	38	2,937
Reinsurers' share in claims provisions	-	131	609	-	-	-	168	-	908
Reinsurance receivables	-	12	47	-	-	-	28	-	87
Total	**1,519**	**411**	**75,279**	**4,986**	**1,170**	**25**	**23,351**	**1,305**	**108,046**

[1] The allowance is recognized in the revaluation reserve and does not lower the carrying amount of assets.

(in millions of PLN)

Credit risk assets at 31 December 2018	AAA	AA	A	BBB	BB	B	No rating	Assets at the client's risk	Total
Debt securities measured at fair value through other comprehensive income – carrying amount	970	671	23,563	1,304	362	-	11,345	-	38,215
- allowance for expected credit losses [1]	-	-	(7)	(3)	(1)	-	(29)	-	(40)
Debt securities measured at fair value through profit or loss – carrying amount	49	7	10,080	463	188	-	178	1,211	12,176
Debt securities measured at amortized cost – carrying amount	-	83	27,529	1,652	-	-	5,388	-	34,652
- gross carrying amount	-	83	27,537	1,653	-	-	5,455	-	34,728
- allowance for expected credit losses	-	-	(8)	(1)	-	-	(67)	-	(76)
Term deposits with credit institutions and buy-sell-back transactions – carrying amount	-	-	951	4,151	62	-	793	90	6,047
- gross carrying amount	-	-	951	4,151	62	-	804	90	6,058
- allowance for expected credit losses	-	-	-	-	-	-	(11)	-	(11)
Loans – carrying amount	-	-	-	-	612	-	3,923	-	4,535
- gross carrying amount	-	-	-	-	613	-	3,982	-	4,595
- allowance for expected credit losses	-	-	-	-	(1)	-	(59)	-	(60)
Derivatives	821	405	222	295	-	2	714	28	2,487
Reinsurers' share in claims provisions	-	149	634	-	-	-	135	-	918
Reinsurance receivables	-	21	55	-	-	-	39	-	115
Total	**1,840**	**1,336**	**63,034**	**7,865**	**1,224**	**2**	**22,515**	**1,329**	**99,145**

[1] The allowance is recognized in the revaluation reserve and does not lower the carrying amount of assets.

The table below presents the credit risk ratios used by the PZU Group to measure credit risk.

Standard&Poor's ratings	AAA	AA	A	BBB	BB	B	No rating
Ratio 30 June 2019	0.70%	0.73%	1.28%	3.44%	12.22%	24.21%	20.62%
Ratio 31 December 2018	0.71%	0.76%	1.34%	3.58%	12.77%	24.95%	24.95%

The quantity of credit risk for assets for which the PZU Group incurs risk on 30 June 2019 was PLN 6,113 million (at 31 December 2018: PLN 6,924 million; while if the ratios on 30 June 2019 are applied this figure would be PLN 5,893 million).

7.25 Assets held for sale

Assets held for sale by classification before transfer	30 June 2019	31 December 2018
Groups held for sale	**971**	**1,021**
Assets	1,030	1,070
Investment property	955	973
Receivables	14	12
Deferred tax assets	8	5
Cash and cash equivalents	46	76
Other assets	7	4
Liabilities related directly to assets classified as held for sale	59	49
Deferred tax liability	27	27
Other liabilities	32	22
Other assets held for sale	**109**	**77**
Property, plant and equipment	73	34
Investment property	36	43
Assets and groups of assets held for sale	**1,139**	**1,147**
Liabilities related directly to assets classified as held for sale	**59**	**49**

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)

7.26 Technical provisions

Technical provisions	30 June 2019			31 December 2018		
	gross	reinsurers' share	net	gross	reinsurers' share	net
Technical provisions in non-life insurance	**23,971**	**(1,386)**	**22,585**	**23,508**	**(1,512)**	**21,996**
Provision for unearned premiums	8,562	(478)	8,084	8,416	(594)	7,822
Provision for unexpired risk	8	-	8	10	-	10
Provisions for outstanding claims and benefits	9,408	(715)	8,693	9,098	(724)	8,374
- for reported claims	3,388	(621)	2,767	3,280	(603)	2,677
- for claims not reported (IBNR)	4,039	(74)	3,965	3,939	(103)	3,836
- for claims handling expenses	1,981	(20)	1,961	1,879	(18)	1,861
Provision for the capitalized value of annuities	5,990	(193)	5,797	5,981	(194)	5,787
Provisions for bonuses and discounts for insureds	3	-	3	3	-	3
Technical provisions in life insurance	**22,571**	**-**	**22,571**	**22,331**	**-**	**22,331**
Provision for unearned premiums	99	-	99	99	-	99
Life insurance provision	16,294	-	16,294	16,204	-	16,204
Provisions for outstanding claims and benefits	585	-	585	592	-	592
- for reported claims	148	-	148	152	-	152
- for claims not reported (IBNR)	431	-	431	434	-	434
- for claims handling expenses	6	-	6	6	-	6
Provisions for bonuses and discounts for insureds	4	-	4	4	-	4
Other technical provisions	242	-	242	256	-	256
Unit-linked provision	5,347	-	5,347	5,176	-	5,176
Total technical provisions	**46,542**	**(1,386)**	**45,156**	**45,839**	**(1,512)**	**44,327**

7.27 Other provisions

Movement in other provisions in the period ended 30 June 2019	Balance at the beginning of the period	Increase	Utilization	Termination	Other changes	Balance at the end of the period
Provisions for guarantees and sureties given	316	214	-	(182)	-	348
Provision for disputed claims and potential liabilities	67	16	(6)	(5)	3	75
Provision for penalties imposed by the Office of Competition and Consumer Protection	85	-	-	-	-	85
Provision for restructuring expenses	20	92	(30)	(1)	-	81
Other	31	11	(6)	-	-	36
Total other provisions	**519**	**333**	**(42)**	**(188)**	**3**	**625**

Movement in other provisions in the year ended 31 December 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	159	419	441	(25)	(477)	(42)	316
Provision for disputed claims and potential liabilities	82	-	82	52	(12)	(55)	-	67
Provision for penalties imposed by the Office of Competition and Consumer Protection	57	-	57	-	-	-	28	85
Provision for restructuring expenses	63	-	63	-	(36)	(7)	-	20
Other	35	-	35	10	(13)	(1)	-	31
Total other provisions	**497**	**159**	**656**	**503**	**(86)**	**(540)**	**(14)**	**519**

(in millions of PLN)

Provisions for guarantees and sureties given

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

Provision for penalties imposed by the Office of Competition and Consumer Protection

The amount of PLN 57 million pertains to the penalty imposed on PZU in the proceedings of the President of the Office of Competition and Consumer Protection. Additional information on this matter is presented in section 16.2.

The amount of 28 million pertains to a penalty returned by the Office of Competition and Consumer Protection to Pekao. Due to the potential risk of outflow of resources in connection with this case the PZU Group has not recognized the revenue on account of the refunded resources but recognized a provision.

Provision for restructuring expenses

The Pekao Management Board reported that on 4 April 2019, in accordance with the provisions of the Act of 13 March 2003 on the Special Rules for Terminating Employment Relationships with Employees for Reasons Not Attributable to Employees (consolidated text in the Journal of Laws of 2018, item 1969), it adopted a resolution concerning the intention of conducting group layoffs and commencing the consultation procedure on group layoffs.

In the period from 26 April 2019 to 31 October 2019, the Management Board of Pekao intends to terminate employment contracts with a maximum of 900 employees and modify employment conditions to a maximum of 620 employees.

The total costs related to the termination of employment contracts and to the modification of the employment conditions of Pekao employees under group layoffs has been estimated at PLN 85 million and the restructuring provision in this amount has been established for this purpose. The value of the provision as at 30 June 2019 was PLN 65 million.

7.28 Financial liabilities

Financial liabilities	30 June 2019	31 December 2018
Financial liabilities measured at fair value	**4,299**	**4,017**
Derivatives held for trading	2,757	2,450
Cash flow hedge derivatives	533	771
Fair value hedge derivatives	156	144
Liabilities on borrowed securities (short sale)	546	120
Investment contracts for the client’s account and risk (unit-linked)	264	266
Liabilities to members of consolidated mutual funds	43	266
Financial liabilities measured at amortized cost	**238,564**	**232,299**
Liabilities to banks	7,279	6,044
Current deposits	3,091	1,058
One-day deposits	24	207
Term deposits	360	7
Loans received	3,212	4,386
Other liabilities	592	386
Liabilities to clients under deposits	210,816	207,635
Current deposits	139,009	137,559
Term deposits	70,869	69,350
Other liabilities	938	726
Liabilities on the issue of own debt securities	12,535	12,009
Subordinated liabilities	6,423	6,061
Liabilities on account of repurchase transactions	300	540
Lease liabilities	1,211	10
Total financial liabilities	**242,863**	**236,316**

7.28.1. Subordinated liabilities

	Par value (in millions)	Cur-rency	Interest rate	Issue (receipt) date / Maturity date	Carrying amount 30 June 2019 (in PLN m)	Carrying amount 31 December 2018 (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	2,277	2,279
Liabilities classified as Pekao's own funds						
A series bonds	1,250	PLN	WIBOR 6M + margin	30 October 2017 29 October 2027	1,257	1,257
B series bonds	550	PLN	WIBOR 6M + margin	15 October 2018 16 October 2028	554	548
C series bonds	200	PLN	WIBOR 6M + margin	15 October 2018 14 October 2033	201	196
D series bonds	350	PLN	WIBOR 6M + margin	4 June 2019 4 June 2031	351	-
Liabilities classified as Alior Bank's equity						
Subordinated loan	10	EUR	EURIBOR 3M + margin	12 October 2011 12 October 2019	43	43
F series bonds	322	PLN	WIBOR 6M + margin	26 September 2014 26 September 2024	225	225
G series bonds	193	PLN	WIBOR 6M + margin	31 March 2015 31 March 2021	196	196
I and I1 series bonds	183	PLN	WIBOR 6M + margin	4 December 2015 6 December 2021	147	148
K and K1 series bonds	600	PLN	WIBOR 6M + margin	20 October 2017 20 October 2025	605	605
Meritum Bank series B bonds	67	PLN	WIBOR 6M + margin	29 April 2013 29 April 2021	68	68
Meritum Bank series C bonds	80	PLN	WIBOR 6M + margin	21 October 2014 21 October 2022	81	81
EUR001 series bonds	10	EUR	LIBOR 6M + margin	4 February 2016 4 February 2022	44	44
P1A series bonds	150	PLN	WIBOR 6M + margin	14 April 2016 16 May 2022	151	151
P1B series bonds	70	PLN	WIBOR 6M + margin	21 April 2016 16 May 2024	70	70
P2A series bonds	150	PLN	WIBOR 6M + margin	27 December 2017 29 December 2025	153	150
Subordinated liabilities					**6,423**	**6,061**

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

7.28.2. Liabilities on the issue of own debt securities

Liabilities on the issue of own debt securities	30 June 2019	31 December 2018
Bonds of PZU Finance AB (publ.)	3,663	3,676
Alior Bank series J bonds	268	268
Pekao bonds	2,685	1,978
Certificates of deposit	4,545	4,542
Covered bonds	1,374	1,545
Liabilities on the issue of own debt securities	**12,535**	**12,009**

(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.) under the bonds have been repaid in accordance with the maturity date as at 3 July 2019.

7.29 Other liabilities

Other liabilities	30 June 2019	31 December 2018
Accrued expenses	**1,472**	**1,578**
Accrued expenses of agency commissions	355	361
Accrued sales commission expenses in group insurance	2	2
Accrued payroll expenses	185	192
Accrued reinsurance expenses	242	373
Accrued employee bonuses	414	345
Other	274	305
Deferred revenue	**342**	**282**
Other liabilities	**10,615**	**5,547**
Liabilities to PZU shareholders for dividends	2,421	3
Liabilities to minority shareholders in subsidiaries for dividends	1,385	-
Liabilities due under transactions on financial instruments	1,035	909
Liabilities to banks for payment documents cleared in interbank clearing systems	1,838	934
Liabilities on direct insurance	888	835
Liabilities on account of payment card settlements	552	419
Regulatory settlements	198	165
Liabilities for contributions to the Bank Guarantee Fund	677	182
Reinsurance liabilities	248	269
Estimated non-insurance liabilities	86	157
Liabilities to employees	118	141
Estimated refunds of compensation in connection with banks' clients lapsing or withdrawing from insurance purchased during the sale of credit products	90	98
Trade liabilities	252	367
Current income tax liabilities	301	570
Liabilities to the state budget other than for income tax	112	111
Liabilities on account of donations	23	25
Banks' liabilities for insurance of bank products offered to their clients	21	20
Insurance Indemnity Fund	14	15
Liabilities for direct claims handling	29	30
Other	327	297
Other liabilities, total	**12,429**	**7,407**

(in millions of PLN)

8. Financial assets securing receivables, liabilities and contingent liabilities

Assets securing liabilities and contingent liabilities include primarily mortgage-backed bonds and receivables (in the case of mortgage bond issues) and cash deposits (in the case of coverage of the Settlement Guarantee Fund for the National Depository for Securities). The table presents the carrying amount of the collateral, by type of secured liability.

Carrying amount of financial assets pledged as collateral for liabilities and contingent liabilities	30 June 2019	31 December 2018
Carrying amount of financial assets pledged as collateral for liabilities	9,591	8,254
Repurchase transactions	299	543
Coverage of the Guaranteed Funds Protection Fund for the Bank Guarantee Fund	1,031	1,043
Coverage of liabilities to be paid to the guarantee fund at the Bank Guarantee Fund	110	95
Coverage of liabilities to be paid to the mandatory restructuring fund (BFG)	259	133
Lombard and technical credit	5,088	3,700
Other loans	722	569
Debt securities issued	1,346	1,462
Coverage of the Settlement Guarantee Fund for the National Depository for Securities	63	54
Derivative transactions	673	655
Carrying amount of financial assets pledged as collateral for contingent liabilities	-	-
Financial assets pledged as collateral for liabilities and contingent liabilities, total	**9,591**	**8,254**

9. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2019	31 December 2018
Contingent assets, including:	6	6
- guarantees and sureties received	6	6
Contingent liabilities	60,207	57,667
- for renewable limits in settlement accounts and credit cards	12,384	13,211
- for loans in tranches	30,004	28,523
- guarantees and sureties given	8,974	7,682
- disputed insurance claims	653	576
- other disputed claims	227	231
- other, including:	7,965	7,444
- guaranteeing securities issues	3,957	4,470
- factoring	2,596	1,275
- intra-day limit	359	755
- letters of credit and commitment letters	846	822
- other	207	122

PZU Finance AB (publ.), a PZU subsidiary, issued 5-year bonds in the period from 2014 to 2015, with the par value of EUR 850 million, which matured in July 2019. Proceeds from the issue were forwarded to PZU in the form of two loans for the total amount of EUR 850 million. Payments under the loans matched the payments under bonds in terms of the payment date and amount. PZU repaid loans to PZU Finance AB on 28 June 2019.

In 2018, in connection with concerns regarding taxation under the Swedish Conversion Act (2000:46) of the FX differences in the situation where Euro is a reporting currency, PZU Finance AB (publ.) applied for an individual tax ruling to the Swedish Tax Interpretation Board (Skatterättsnämnden). On 13 March 2019, PZU Finance AB (publ.) received a ruling under which the FX differences arising on repayment of the loan should be subject to taxation, while the FX differences arising on repayment of the bonds are not subject to taxation. On 3 April 2019, PZU Finance AB (publ.) appealed to the Supreme Court of Administration (Högsta förvaltningsdomstolen). The Board's interpretation, if it is upheld by the Swedish Supreme Court of Administration (Högsta förvaltningsdomstolen) would mean that a different approach is applied in Sweden to companies reporting in the Euro than to companies reporting in Swedish kronor, which would be inconsistent with the assumptions of the Act. The PZU Group believes that such an approach would stand in contradiction with Article 63 of the Treaty on the Functioning of the European

Union (TFEU) concerning the necessity to ensure unrestricted movement of capital in the EU, or Articles 49 and 54 of TFEU concerning the freedom of business activity.

Accordingly, the PZU Group recognized a contingent liability of PLN 78 million (equivalent to SEK 193 million).

10. 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;
- 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 2018 report published on 27 May 2019 is available online at https://www.pzu.pl/relacje-inwestorskie/informacje-finansowe. Pursuant to art. 290 section 1 of the Insurance Activity Act, a solvency and financial condition report of an insurance undertaking is audited by an audit firm.

(in millions of PLN)

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

The PZU Group's solvency ratio as at 31 December 2018 published in the PZU Group's 2018 solvency and financial condition report was 233%. The solvency ratio (standalone and consolidated alike) reported to KNF not audited by an audit firm as at the end of the first quarter of 2019 stayed above the level of 200%.

The maintained levels of solvency ratio comply with those assumed in the capital policy of the PZU Group.

11. Segment reporting

11.1 Reportable segments

11.1.1. 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

Segment	Accounting standards	Segment description	Aggregation criteria
Banking activity	IFRS	Broad range of banking products offered both to corporate and retail clients by the Pekao Group and the Alior Bank Group.	The aggregation was carried out due to similarity of products and services offered by the companies and the identical regulatory environment of their operations.
Pension insurance	PAS	2nd pillar pension insurance	No aggregation
Baltic States	IFRS	Non-life and life insurance products offered by Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas.	The aggregation was carried out due to similarity of products and services offered by the companies and similarity of the regulatory environment of their operations.
Ukraine	IFRS	Non-life and life insurance products offered by PZU Ukraine and PZU Ukraine Life Insurance.	The aggregation was carried out due to similarity of the regulatory environment of their operations.
Investment contracts	PAS	PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance contract (i.e. some products with a guaranteed rate of return and some unit-linked products).	No aggregation
Other	PAS / IFRS	Other products and services not classified into any of the above segments.	

11.1.2. 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.

11.2 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.

11.3 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.

11.4 Accounting policies applied according to PAS

11.4.1. 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 2018.

PZU's 2018 standalone financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

11.4.2. 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 contracts. According to IFRS agreements are classified according to the guidelines set forth under IFRS 4 on the classification of products as insurance contracts (subject to IFRS 4) or investment contracts (measured according to IAS 9). In the case of the latter the written premium is not recognized.

11.5 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)

11.6 Quantitative data

Corporate insurance (non-life insurance)	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	735	1,405	893	1,520
Gross written premium – cross-segment	5	6	2	1
Gross written premiums	**740**	**1,411**	**895**	**1,521**
Movement in provision for unearned premiums and gross provision for unexpired risks	17	72	(216)	(166)
Gross earned premium	**757**	**1,483**	**679**	**1,355**
Reinsurers' share in gross written premium	(109)	(158)	(251)	(290)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(32)	(108)	153	94
Net earned premiums	**616**	**1,217**	**581**	**1,159**
Investment income, including:	24	49	34	63
external operations	24	49	34	63
intersegment operations	-	-	-	-
Other net technical income	15	24	9	29
Income	**655**	**1,290**	**624**	**1,251**
Net insurance claims and benefits	(392)	(774)	(392)	(721)
Acquisition expenses	(129)	(254)	(120)	(233)
Administrative expenses	(31)	(61)	(34)	(64)
Reinsurance commissions and profit participation	9	19	8	17
Other	(11)	(34)	(9)	(33)
Insurance result	**101**	**186**	**77**	**217**

Mass insurance (non-life insurance)	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	2,581	5,264	2,616	5,327
Gross written premium – cross-segment	5	9	5	23
Gross written premiums	**2,586**	**5,273**	**2,621**	**5,350**
Movement in provision for unearned premiums and gross provision for unexpired risks	38	(123)	(44)	(304)
Gross earned premium	**2,624**	**5,150**	**2,577**	**5,046**
Reinsurers' share in gross written premium	(12)	(47)	(23)	(26)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(27)	(14)	(15)	(36)
Net earned premiums	**2,585**	**5,089**	**2,539**	**4,984**
Investment income, including:	118	238	149	283
external operations	118	238	149	283
intersegment operations	-	-	-	-
Other net technical income	24	72	25	60
Income	**2,727**	**5,399**	**2,713**	**5,327**
Net insurance claims and benefits	(1,739)	(3,287)	(1,603)	(3,135)
Acquisition expenses	(491)	(966)	(454)	(905)
Administrative expenses	(153)	(305)	(158)	(288)
Reinsurance commissions and profit participation	-	-	2	(1)
Other	(88)	(195)	(67)	(180)
Insurance result	**256**	**646**	**433**	**818**

(in millions of PLN)

Group and individually continued insurance (life insurance)	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	1,738	3,471	1,722	3,444
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**1,738**	**3,471**	**1,722**	**3,444**
Movement in the provision for unearned premiums	1	-	-	(1)
Gross earned premium	**1,739**	**3,471**	**1,722**	**3,443**
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 premiums	**1,739**	**3,471**	**1,722**	**3,443**
Investment income, including:	174	350	139	261
external operations	174	350	139	261
intersegment operations	-	-	-	-
Other net technical income	2	3	1	1
Income	**1,915**	**3,824**	**1,862**	**3,705**
Net insurance claims and benefits and movement in other net technical provisions	(1,230)	(2,594)	(1,196)	(2,510)
Acquisition expenses	(97)	(187)	(88)	(172)
Administrative expenses	(159)	(310)	(154)	(297)
Other	(22)	(30)	(10)	(22)
Insurance result	**407**	**703**	**414**	**704**

Individual insurance (life insurance)	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	367	694	343	689
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**367**	**694**	**343**	**689**
Movement in the provision for unearned premiums	(1)	2	-	2
Gross earned premium	**366**	**696**	**343**	**691**
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 premiums	**366**	**696**	**343**	**691**
Investment income, including:	124	316	68	83
external operations	124	316	68	83
intersegment operations	-	-	-	-
Income	**490**	**1,012**	**411**	**774**
Net insurance claims and benefits and movement in other net technical provisions	(388)	(794)	(311)	(571)
Acquisition expenses	(33)	(64)	(32)	(65)
Administrative expenses	(16)	(33)	(19)	(37)
Other	(1)	(2)	(2)	(3)
Insurance result	**52**	**119**	**47**	**98**

(in millions of PLN)

Investments	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Investment income, including:	66	223	(208)	(293)
- external operations	(38)	102	(233)	(340)
- intersegment operations	104	121	25	47
Operating result	**66**	**223**	**(208)**	**(293)**

Banking activity	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018 (restated)	1 January - 30 June 2018 (restated)
Revenue from commissions and fees	990	1,922	962	1,889
Investment income, including:	2,136	4,436	2,252	4,336
- external operations	2,136	4,436	2,252	4,336
- intersegment operations	-	-	-	-
Income	**3,126**	**6,358**	**3,214**	**6,225**
Fee and commission expenses	(216)	(391)	(181)	(351)
Interest expenses	(507)	(997)	(468)	(927)
Administrative expenses	(1,226)	(2,439)	(1,302)	(2,540)
Other	(347)	(1,080)	(272)	(639)
Operating result	**830**	**1,451**	**991**	**1,768**

Pension insurance	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Investment income, including:	2	3	1	3
external operations	2	3	1	3
intersegment operations	-	-	-	-
Other income	37	69	41	77
Income	**39**	**72**	**42**	**80**
Administrative expenses	(10)	(22)	(9)	(17)
Other	(1)	(2)	(1)	(3)
Operating result	**28**	**48**	**32**	**60**

(in millions of PLN)

Insurance - Baltic States	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	440	856	412	787
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**440**	**856**	**412**	**787**
Movement in provision for unearned premiums and gross provision for unexpired risks	(31)	(47)	(30)	(54)
Gross earned premium	**409**	**809**	**382**	**733**
Reinsurers' share in gross written premium	(11)	(39)	(9)	(29)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	(3)	11	(3)	6
Net earned premiums	**395**	**781**	**370**	**710**
Investment income, including:	8	22	2	5
external operations	8	22	2	5
intersegment operations	-	-	-	-
Income	**403**	**803**	**372**	**715**
Net insurance claims and benefits paid	(235)	(482)	(223)	(434)
Acquisition expenses	(84)	(165)	(78)	(153)
Administrative expenses	(32)	(63)	(31)	(60)
Other	1	2	1	2
Insurance result	**53**	**95**	**41**	**70**

Insurance – Ukraine	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium – external	78	149	62	114
Gross written premium – cross-segment	-	-	-	-
Gross written premiums	**78**	**149**	**62**	**114**
Movement in provision for unearned premiums and gross provision for unexpired risks	(3)	(10)	(3)	(4)
Gross earned premium	**75**	**139**	**59**	**110**
Reinsurers' share in gross written premium	(26)	(46)	(24)	(42)
Reinsurer's share in the movement in provision for unearned premiums and the gross provision for unexpired risk	1	(1)	2	1
Net earned premiums	**50**	**92**	**37**	**69**
Investment income, including:	6	14	4	6
external operations	6	14	4	6
intersegment operations	-	-	-	-
Income	**56**	**106**	**41**	**75**
Net insurance claims and benefits paid	(14)	(33)	(12)	(25)
Acquisition expenses	(26)	(51)	(21)	(40)
Administrative expenses	(7)	(14)	(6)	(11)
Other	6	12	4	10
Insurance result	**15**	**20**	**6**	**9**

(in millions of PLN)

Investment contracts	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Gross written premium	7	17	8	20
Movement in the provision for unearned premiums	-	-	-	-
Gross earned premium	**7**	**17**	**8**	**20**
Reinsurers' share in gross written premium	-	-	-	-
Reinsurer's share in the movement in the provision for unearned premiums	-	-	-	-
Net earned premiums	**7**	**17**	**8**	**20**
Investment income, including:	3	11	-	(7)
external operations	3	11	-	(7)
intersegment operations	-	-	-	-
Other income	-	-	-	-
Income	**10**	**28**	**8**	**13**
Net insurance claims and benefits and movement in other net technical provisions	(8)	(24)	(5)	(7)
Acquisition expenses	-	-	-	-
Administrative expenses	(1)	(2)	(1)	(3)
Operating result	**1**	**2**	**2**	**3**

Other segments	1 April – 30 June 2019	1 January - 30 June 2019	1 April – 30 June 2018	1 January - 30 June 2018
Investment income, including:	9	9	12	12
- external operations	9	9	12	12
- intersegment operations	-	-	-	-
Other income	275	539	247	492
Income	**284**	**548**	**259**	**504**
Costs	(291)	(567)	(277)	(539)
Other	14	17	7	13
Operating result	**7**	**(2)**	**(11)**	**(22)**

(in millions of PLN)

Reconciliations 1 January 2019 - 30 June 2019	Net earned premiums	Investment income [2]	Net insurance claims and benefits paid	Acquisition expenses	Administrative expenses	Operating result
Corporate insurance	1,217	49	(774)	(254)	(61)	186
Mass insurance	5,089	238	(3,287)	(966)	(305)	646
Group and individually continued insurance	3,471	350	(2,594)	(187)	(310)	703
Individual insurance	696	316	(794)	(64)	(33)	119
Investments	-	223	-	-	-	223
Banking activity	-	4,436	-	-	(2,439)	1,451
Pension insurance	-	3	-	(2)	(22)	48
Insurance - Baltic States	781	22	(482)	(165)	(63)	95
Insurance – Ukraine	92	14	(33)	(51)	(14)	20
Investment contracts	17	11	(24)	-	(2)	2
Other segments	-	9	-	-	-	(2)
Total segments	**11,363**	**5,671**	**(7,988)**	**(1,689)**	**(3,249)**	**3,491**
Presentation of investment contracts	(17)	(6)	23	-	-	-
Estimated salvage and subrogation	-	-	(5)	-	-	(5)
Valuation of equity instruments	-	19	-	-	-	19
Valuation of properties	-	(4)	-	-	(1)	(6)
Elimination of the equalization provision and prevention fund	-	-	-	-	-	(3)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(12)	(35)	41	73	(16)	(383)
Consolidated data	**11,334**	**5,645**	**(7,929)**	**(1,616)**	**(3,276)**	**3,103**

(in millions of PLN)

Reconciliations 1 January 2018 - 30 June 2018 (restated data)	**Net earned premiums**	**Investment income** [2]	**Net insurance claims and benefits paid**	**Acquisition expenses**	**Administrative expenses**	**Operating result**
Corporate insurance	1,159	63	(721)	(233)	(64)	217
Mass insurance	4,984	283	(3,135)	(905)	(288)	818
Group and individually continued insurance	3,443	261	(2,510)	(172)	(297)	704
Individual insurance	691	83	(571)	(65)	(37)	98
Investments	-	(293)	-	-	-	(293)
Banking activity	-	4,336	-	-	(2,540)	1,768
Pension insurance	-	3	-	(3)	(17)	60
Insurance - Baltic States	710	5	(434)	(153)	(60)	70
Insurance – Ukraine	69	6	(25)	(40)	(11)	9
Investment contracts	20	(7)	(7)	-	(3)	3
Other segments	-	12	-	-	-	(22)
Total segments	**11,076**	**4,752**	**(7,403)**	**(1,571)**	**(3,317)**	**3,432**
Presentation of investment contracts	(20)	10	7	-	-	-
Estimated salvage and subrogation	-	-	(4)	-	-	(4)
Valuation of equity instruments	-	(15)	-	-	-	(15)
Valuation of properties	-	(4)	-	-	-	(7)
Elimination of the equalization provision and prevention fund	-	-		-	-	(7)
Allowances to the Company Social Benefit Fund and actuarial costs	-	-	-	-	(10)	(10)
Consolidation adjustments [1]	(2)	70	55	52	(15)	(334)
Consolidated data	**11,054**	**4,813**	**(7,345)**	**(1,519)**	**(3,342)**	**3,055**

[1] Consolidation adjustments ensue chiefly from 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 June 2019					**1 January - 30 June 2018** (restated)				
	Poland	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**	**Poland**	**Baltic States**	**Ukraine**	**Unallocated**	**Consolidated value**
Gross written premium – external	10,834	856	149	-	11,839	10,980	787	114	-	11,881
Gross written premium – cross-segment	6	-	-	(6)	-	20	-	-	(20)	-
Revenue from commissions and fees	1,993	-	-	-	1,993	2,030	-	-	-	2,030
Investment income [1]	5,609	22	14	-	5,645	4,802	5	6	-	4,813

[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".

(in millions of PLN)

	30 June 2019					31 December 2018				
	Poland	Baltic States	Ukraine	Unallocated	Consolidated value	Poland	Baltic States	Ukraine	Unallocated	Consolidated value
Non-current assets, other than financial assets [1)]	7,005	249	4	-	7,258	6,122	238	4	-	6,364
Deferred tax assets	2,333	-	3	-	2,336	2,231	-	3	-	2,234
Assets	338,287	2,714	440	(1,362)	340,079	326,874	2,704	409	(1,433)	328,554

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

11.7 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).

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

In the 6-month period ended 30 June 2019, neither PZU nor its subsidiaries materially issued, redeemed or repaid any debt securities or equity securities, except for the matter described below.

On 4 June 2019, Pekao issued series D subordinated bonds. 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 D	500,000	350	PLN	WIBOR 6M + 1.70% margin	4 June 2019	4 June 2031 with an early redemption option within 7 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

On 8 July 2019 Pekao received KNF's decision consenting to the classification of the series D bonds as Tier II capital instruments.

After the balance sheet date, on 3 July 2019, PZU Finance AB (publ.), a subsidiary company of PZU, repaid the entire indebtedness on bonds with the par value of EUR 850 million.

13. Default or breach of material provisions of loan agreements

During the 6-month period ended 30 June 2019, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no corrective measures were taken until the end of the reporting period.

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

In the 6-month period ended 30 June 2019, 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.

15. Dividends

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

On 24 May 2019, PZU's Ordinary Shareholder Meeting distributed PZU's net profit for the year ended 31 December 2018 totaling PLN 2,712 million by earmarking:

- PLN 2,418 million as a dividend payout to shareholders, i.e. PLN 2.80 per share;
- PLN 287 million as supplementary capital;
- PLN 7 million to the Company Social Benefit Fund;

The record date was set at 14 August 2019 and the dividend payout date was set for 5 September 2019.

Moreover, the PZU Ordinary Shareholder Meeting made a decision on a transfer to supplementary capital of retained earnings resulting from the allocation of the purchase price for an organized part of Bank BPH SA by Alior Bank in the amount of PLN 20 million.

16. 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 contracts, 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.

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. The insurance companies takes disputed claims into account in the process of establishing technical provisions for known losses, considering the probability of an unfavorable outcome of the dispute and estimating the probable awarded amount.

As at 30 June 2019, the total value of the subject matter of the litigation in all 238,417 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 8,048 million. PLN 4,246 million of that amount pertains to liabilities and PLN 3,802 million to the accounts receivable of PZU Group companies.

During the 6-month period ended 30 June 2019 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.

16.1 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 submitted a statement of defense, requesting that the claim be dismissed 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 June 2019, no changes were made to the presentation of PZU's equity that could potentially stem from the repeal of resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on the distribution of profit for the 2006 financial year, including the line items "Supplementary capital" and "Retained earnings (losses)", and the funds in the Company Social Benefit Fund were not adjusted.

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

On 13 November 2018 the Regional Court in Warsaw served a copy of the statement of claim lodged by Wspólna Reprezentacja SA in restructuring, which pertained to a claim against PZU for payment of PLN 34 million with statutory interest from 1 October 2015 to the payment date with court expenses. The claim comprises a claim for payment of damages for depriving the shareholders of their share of profits for the 2006 financial year. The plaintiff claims that the claims for damages were transferred by the shareholders to the plaintiff based on mandate agreements together with a fiduciary transfer of receivables and the claim pursued by the statement of claim is the total damage caused to the shareholders. PZU does not accept the claims as unjustified and submitted its statement of defense, requesting the claim to be dismissed it in its entirety. PZU did not consent to mediation. The date of the next session was set at 6 November 2019.

16.2 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 ADD insurance for children, youths and staff of educational institutions consisting of dividing the sales market by entity and transferring PZU's clients from the Kujawsko-Pomorskie voivodship to Maximus Broker for the provision of services in exchange for their recommending PZU as the insurer of choice and at the same time prohibited PZU from the use of this alleged practice.

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

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

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

On 27 March 2015, the Regional Court in Warsaw 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 in Warsaw issued a judgment in which it repealed the decision of the UOKiK President of 30 December 2011. On 4 October 2017, the UOKiK President filed an appeal with the Appellate Court in Warsaw. The Appellate Court in Warsaw, by its judgment of 23 January 2019, dismissed the appeal put forward by the UOKiK President. The judgment is final. The UOKiK President has filed a cassation appeal with the Supreme Court against the final judgment, to which PZU has given its reply.

PZU had a provision for this penalty, which amounted to PLN 57 million as at 30 June 2019 and 31 December 2018 alike.

16.3 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 anti-monopoly procedure in the matter of a suspicion of PZU Życie's abuse of its dominating position in the group employee insurance market, which could constitute a breach of Article 8 of the Competition and Consumer Protection Act and Article 82 of the Treaty establishing the European Community. As a result of the procedure, on 25 October 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 or with the legal arguments set out in the decision. It filed an appeal with the Regional Court in Warsaw, 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 held on 26 September 2017, the Supreme Court decided to refer the case for resolution to the Court of Justice of the European Union in Luxembourg, which through its judgment on 3 April 2019 ruled on this question. The Supreme Court set the hearing date for 16 October 2019.

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

16.4 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 receivables, PZU received 206,139 PBG 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 PBG's shares as at 30 June 2019 was PLN 2 million (PLN 2 million as at 31 December 2018). The bonds, whose carrying amount was assessed to be zero, were recognized in off-balance sheet records only as at 30 June 2019 and 31 December 2018.

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 date of the hearing in the matter of examination of the PZU's objection was set to 25 September 2019. 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).

16.5 Class action against Alior Bank

On 5 March 2018, a natural person representing a group of 84 natural and legal persons filed a class action against Alior Bank to rule Alior Bank's liability for a loss caused by the improper performance of Alior Bank's disclosure obligations to clients and improper performance of agreements to provide services of accepting and forwarding purchase or sale orders of investment certificates of mutual funds managed previously by Fincrea TFI SA and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. The plaintiffs believe that Alior Bank failed to provide clients with information on the actual risk of investing in investment products, by which it exposed the clients to a loss resulting from the loss of value of investment certificates and loss of guaranteed profits. The PZU Management Board believes that the class action has no justified factual or legal grounds and therefore it should not be resolved favorably to the clients. As at the date of preparing the condensed interim consolidated financial statements, the court with which the class action was filed has not issued a decision on the admissibility of the class action. Additionally, the PZU Group posits that the risk of this action being resolved unfavorably to Alior Bank and the risk of incurring material loss on this account is at a level below average; accordingly, as at 30 June 2019, the PZU Group has not recognized any provisions in relation to this action. At the current stage, it is not possible to estimate the possible financial consequences for Alior Bank and the PZU Group if the court hands down a resolution other than the one assumed by the PZU Group.

(in millions of PLN)

17. Other information

17.1 Related party transactions

17.1.1. Related party transactions concluded by PZU or subsidiaries on non-arm's length conditions

In the 6-month period ended 30 June 2019, 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 non-arm's length conditions.

17.1.2. Other related party transactions

Balances and turnovers resulting from commercial transactions between the PZU Group and related parties	1 January – 30 June 2019 and as at 30 June 2019		1 January – 31 December 2018 and as at 31 December 2018		1 January – 30 June 2018 and as at 30 June 2018	
	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	-	3	-	4	-	3
in non-life insurance	-	3	-	4	-	3
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Costs	-	-	-	-	-	-
Receivables		-		-		-
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.

17.2 KNF Office inspections in PZU and PZU Życie

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 short-term insurance contracts. On 31 December 2018, the regulatory authority issued two key post-audit recommendations for the claims and benefits handling area and one recommendation regarding the execution of short-term insurance agreements with the deadline of 31 January 2019. The recommendations were fulfilled within the deadline. On 27 February 2019 KNF requested more explanations regarding the performance of the recommendations. On 21 March 2019 PZU forwarded additional evidence and a detailed set of explanations pertaining to the performance of the recommendations. Moreover, PZU undertook to convey to the regulatory authority the findings of the inspections planned in 2019 concerning claims handling and the execution of short-term contracts.

On 9 April 2019 the regulatory authority requested the provision of more evidence concerning the performance of the recommendations, inter alia, the findings of the inspections scheduled for Q1 2019. On 16 April and 12 July 2019 PZU conveyed more evidence concerning the performance of the recommendations to the regulatory authority.

In the period from 7 to 25 January 2019 KNF conducted an inspection into PZU Życie's adherence to the obligations stemming from the act on counteracting money laundering and financing of terrorism. On 8 April 2019 KNF issued 5 post-inspection recommendations with execution deadlines of 30 June 2019, 31 December 2019 and 31 January 2020. On 12 July 2019, PZU Życie informed the regulatory authority that it has carried out the recommendation, for which the implementation date has expired on 30 June 2019.

In the period from 9 January to 8 February 2019 KNF conducted a supervisory visit to PZU Życie with respect to the fulfillment of the requirements concerning the risk management system in terms of underwriting insurance risk. On 2 May 2019 PZU Życie received a written summary of the supervisory visit in which the regulatory authority identified an infringement of art. 21 of the Insurance Activity Act. On 16 May, 19 June and 5 July 2019, PZU Życie conveyed to KNF its position and information regarding the actions taken to ensure that the insurance undertaking's business is conducted in accordance with the law. On 25 July 2019, KNF provided recommendations to be implemented by 30 September and 30 November 2019 and 31 March 2020.

Also, by a letter of 28 December 2018, KNF provided a post-inspection protocol for the inspection carried out in PZU Życie in 2016 regarding the use of insurance agent services. On 19 January 2019, PZU Życie passed on its objections to the protocol, to which the KNF responded on 28 May 2019. On 12 June 2019, PZU Życie provided additional explanations to the regulatory authority.

The Management Board of PZU believes that the results of the audit have not exerted any impact on the consolidated financial statements.

17.3 KNF's proceedings to impose a fine on Alior Bank

On 14 September 2018, the KNF launched proceedings against Alior Bank to impose a fine on Alior Bank pursuant to art. 167 sec. 2 item 1 in conj. with art. 167 sec. 1 item 1 of the Financial Instruments Trading Act in connection with the irregularities found. The proceedings are related to the audit conducted by KNF from November 2017 to May 2018, which concerned the correct operation of Alior Bank and the Bank's Brokerage House in terms of distribution of investment certificates of funds previously managed by Fincrea TFI SA, and currently by Raiffeisen Bank International AG (Spółka Akcyjna) Branch in Poland. On 6 August 2019, KNF imposed a fine of PLN 10 million on Alior Bank.

17.4 Cases involving Alior Leasing sp. z o.o.

On 23 January 2019, Alior Leasing sp. z o.o. received a written proposal from four former management board members regarding the amicable termination of cooperation and their management services contracts; one of the elements of the proposals involved payment by Alior Leasing sp. z o.o. of some of the benefits from the management option plan. Considering the legal opinions issued in this matter, the PZU Group believes that the likelihood that the dismissed management board members of Alior Leasing sp. z o.o. effectively pursue benefits under the management stock option plan is low. Accordingly, no relevant provision was recognized in the condensed consolidated financial statements.

Alior Leasing sp. z o.o. has identified the risk of possible claims against the company filed by third parties, which may result from actions of some employees and associates of Alior Leasing sp. z o.o. As at the date or preparing the condensed interim consolidated financial statements, no claims have been filed on this account. The PZU Group believes that there are no circumstances justifying recognition of a provision on this account.

The PZU Group will not disclose any further information regarding the possible third party claims mentioned above, to avoid the weakening of its status and position in the potential proceedings.

17.5 Execution of a memorandum of agreement pertaining to the terms and conditions for the transaction involving RUCH Spółka Akcyjna in restructuring

A memorandum of agreement was executed on 11 April 2019 by and between Alior Bank, Polski Koncern Naftowy Orlen SA ("PKN Orlen") and PZU concerning the terms and conditions for a transaction involving RUCH SA in restructuring ("Ruch"). In accordance with this memorandum of agreement Alior Bank intends to take over a 100% equity stake in Ruch (in the manner agreed by and between Alior Bank and PKN Orlen after the arrangement is approved with legally binding force under the accelerated arrangement proceedings) for the purpose of reselling it to PKN Orlen.

PKN Orlen's acquisition of the shares in Ruch will take place after the fulfillment of the conditions contemplated by the executed memorandum of agreement, i.e. among others:

- asserting with legally binding force the performance of the arrangements executed in the accelerated arrangement proceedings concerning Ruch;
- the parties to the memorandum of agreement obtain corporate consents and
- the UOKiK President or the European Commission give their consent for PKN Orlen to acquire shares in Ruch.

On 29 May 2019, Alior Bank received information that the District Court for the Capital City of Warsaw in Warsaw, 10th Economic Division on bankruptcy and restructuring, did not approve the compositions adopted by the meetings of creditors in the accelerated composition proceedings for RUCH, for procedural reasons, in connection with formal shortcomings. Accordingly, RUCH filed complaints against these decisions, which were transferred to the second instance court.

The Alior Bank's Management Board upholds the opinion that the restructuring scenario is the most advantageous.

17.6 Act on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations for Damage Suffered before 1 January 2006

On 14 August 2019, the President signed the Act of 19 July 2019 on Special Rights of Injured Persons with an Exhausted Indemnity Determined on the basis of Applicable Regulations for Damage Suffered before 1 January 2006. The Act defines the special rights granted to injured persons in the event of damage arising in the territory of the Republic of Poland in situations where the indemnity has been exhausted. The injured person will be entitled to a claim for the payment of an annuity from the Insurance Indemnity Fund, limited to the indemnity amount set as at the date of submission of the claim in a situation where the insurance undertaking was not required to pay an annuity on the basis of a court ruling setting a different amount of indemnity than that specified in the insurance contract. The claim for the payment of an annuity will apply to periods following the date of the Act's entry into force. The Act's entry into force will trigger the need for verification and potential adaptation of the methods used to calculate technical provisions.

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)
Adam Brzozowski	Member of the PZU Management Board	.... (signature)
Marcin Eckert	Member of the PZU Management Board	.... (signature)
Elżbieta Häuser-Schöneich	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)
Małgorzata Sadurska	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the consolidated financial statements:

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

Warsaw, 28 August 2019