Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Condensed interim consolidated financial statements for the period of 6 months ended 30 June 2016

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Introduction

Compliance statement

The condensed interim consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("condensed interim consolidated financial statements" and "PZU Group", respectively) were prepared according to the requirements of International Accounting Standard 34 "Interim financial reporting" approved by the European Commissionand the requirements specified in the Ordinance on current and periodic reporting.

The condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of PZU Group for 2015.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements have been prepared for the period of 6 months from 1 January to 30 June 2016.

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

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. The functional currency of companies whose registered offices are located in Ukraine is the Ukrainian hryvnia, whereas in the case of the companies whose registered offices are located in Lithuania, Latvia and Sweden it is the euro.

Unless expressly stated otherwise, all financial data presented in the condensed interim consolidated financial statements are expressed in PLN thousand.

Foreign exchange rates

Financial data of foreign subsidiaries are translated into PLN:

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

Currency	1 January– 30 June 2016	1 January– 30 June 2015	30 June 2016	31 December 2015
EUR	4.3805	4.1341	4.4255	4.2615
UAH	0.1535	0.1729	0.1603	0.1622

Going concern assumption

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

Discontinued operations

In the period of 6 months ended on 30 June 2016, the entities in PZU Group did not discontinue any significant type of operations.

Seasonal or periodical nature of operations

The business performed by PZU Group is neither of considerably seasonal nor periodical nature.

Glossary

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

Company names

AAS Balta – Apdrošināšanas Akciju Sabiedrība Balta.

Alior Bank – Alior Bank SA.

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

EMC – EMC Instytut Medyczny SA.

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

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

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

Link4 – Link4 Towarzystwo Ubezpieczeń Spółka Akcyjna.

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

PTE PZU – Powszechne Towarzystwo Emerytalne PZU SA.

PZU, parent entity – Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

PZU CO – PZU Centrum Operacji 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.

SKOK – Cooperative Savings and Credit Union.

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

TFI PZU – Towarzystwo Funduszy Inwestycyjnych PZU SA.

TUW PZUW – Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych.

Other definitions

BGF – Bank Guarantee Fund.

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

IBNR – Incurred But Not Reported or Provision II – the provision for claims incurred but not reported.

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

PFSA – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards, published and effective as at 30 June 2016 and endorsed by the European Commission.

NBP – National Bank of Poland.

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

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

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

Ordinance on current and periodic reporting – Ordinance of the Minister of Finance dated 19 February 2009 on current and periodic information disclosed by issuers of securities and conditions of considering information required by the law of countries which are not EU members as equal (i.e. Journal of Laws of 2014, item 133).

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

UKNF – Polish Financial Supervision Authority.

Act on the BGF – act dated 14 December 1994 on the Bank Guarantee Fund (i.e. Journal of Laws of 2014, item 1866).

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

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

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

ZUS – Social Insurance Institution.

(in PLN thousand)

Interim consolidated financial statements

1. Interim consolidated profit or loss account

Consolidated profit or loss account	Note	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015 (restated)[1)]	1 January–30 June 2015 (restated)[1)]
Gross written premiums	7.1	5,061,383	9,861,987	4,445,623	9,126,450
Reinsurer's share in written premiums		(88,450)	(142,349)	(22,861)	(92,391)
Net written premium		**4,972,933**	**9,719,638**	**4,422,762**	**9,034,059**
Change in net unearned premiums reserve		(304,441)	(734,220)	14,111	(290,146)
Net earned premiums		**4,668,492**	**8,985,418**	**4,436,873**	**8,743,913**
Revenue from commissions and fees	7.2	206,078	391,002	54,752	103,196
Net investment income	7.3	988,637	1,903,315	398,771	845,321
Net result on realization and impairment losses on investments	7.4	(379,707)	(470,449)	65,158	182,942
Net change in the fair value of assets and liabilities measured at fair value	7.5	(135,580)	23,208	(402,298)	57,710
Other operating income	7.6	211,731	415,814	202,722	345,991
Insurance claims and change in technical provisions		(3,134,121)	(6,230,576)	(2,977,320)	(6,084,855)
Reinsurers' share in claims, benefits and change in technical provisions		36,313	66,140	16,817	78,494
Net claims and benefits	**7.7**	**(3,097,808)**	**(6,164,436)**	**(2,960,503)**	**(6,006,361)**
Costs of commissions and fees	7.8	(75,107)	(126,613)	-	-
Interest expense	7.8	(197,184)	(396,811)	(26,449)	(61,876)
Acquisition costs	7.10	(635,364)	(1,252,674)	(577,702)	(1,130,808)
Administrative expenses	7.10	(635,986)	(1,252,969)	(414,046)	(822,062)
Other operating expenses	7.11	(585,133)	(1,004,908)	(312,314)	(638,980)
Operating profit		**333,069**	**1,049,897**	**464,964**	**1,618,986**
Share in net financial result of companies measured using the equity method		(555)	(977)	(215)	(32)
Profit before tax		**332,514**	**1,048,920**	**464,749**	**1,618,954**
Income tax	7.13	(102,298)	(259,076)	(84,562)	(297,427)
Net profit, including:		**230,216**	**789,844**	**380,187**	**1,321,527**
- profit attributable to owners of the parent entity		166,171	659,540	380,261	1,321,593
- profit (loss) attributable to non-controlling interest		64,045	130,304	(74)	(66)

[1)] Information on the causes of the restatement of data and its effect on the consolidated profit or loss account was presented in Point 3.3.

(in PLN thousand)

Interim consolidated profit or loss account (continued)

Consolidated profit or loss account	Note	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015 (restated)[1)]	1 January–30 June 2015 (restated)[1)]
Net profit attributable to owners of the parent entity		166,171	659,540	380,261	1,321,593
Basic and diluted weighted average number of ordinary shares in issue	7.12	863,473,794	863,473,794	863,519,490 [2)]	863,519,490 [2)]
Basic and diluted profit (loss) per ordinary share (in PLN)	7.12	0.19	0.76	0.44 [2)]	1.53 [2)]

[1)] Information on the causes of the restatement of data and its effect on the consolidated profit or loss account was presented in point 3.3.
[2)] Compared data was transformed, taking into consideration the new number of shares after the split of PZU shares.

(in PLN thousand)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Net profit		230,216	789,844	380,187	1,321,527
Other comprehensive income	7.13	(17,986)	(27,352)	(20,634)	(45,057)
Amounts subject to subsequent transfer to profit or loss account		(17,902)	(27,391)	(24,807)	(49,534)
Measurement of available-for-sale financial instruments		(50,431)	(57,818)	(55,424)	(26,470)
Exchange differences from translation		41,465	41,059	30,624	(23,057)
Other comprehensive income of entities measured using the equity method		-	-	(7)	(7)
Net cash flows hedge		(8,936)	(10,632)	-	-
Amounts not subject to subsequent transfer to profit or loss account		(84)	39	4,173	4,477
Property reclassified from property, plant and equipment to investment property		(93)	30	4,137	4,441
Other comprehensive income of entities measured using the equity method		9	9	36	36
Total net comprehensive income		**212,230**	**762,492**	**359,553**	**1,276,470**
- comprehensive income attributable to owners of the parent entity		166,493	645,266	359,617	1,276,547
- comprehensive income attributable to non-controlling interest		45,737	117,226	(64)	(77)

(in PLN thousand)

3. Interim consolidated statement of financial standing

Assets	**Note**	**30 June 2016**	**31 December 2015** (restated)
Goodwill	7.14	1,553,140	1,531,681
Intangible assets		1,348,008	1,393,168
Other assets	7.15	753,856	698,964
Deferred acquisition costs		1,258,529	1,154,742
Estimated subrogations and salvages		116,346	114,229
Reinsurers' share in technical provisions	7.16	1,011,361	1,096,852
Property, plant and equipment		1,208,856	1,299,788
Investment property		1,343,783	1,171,721
Entities measured using the equity method	7.17	53,094	54,065
Financial assets		93,909,618	89,228,583
Held to maturity	7.18.1, 7.22	17,281,793	17,370,126
Available for sale	7.18.2, 7.22	11,047,027	7,744,689
Measured at fair value through profit or loss	7.18.3, 7.22	20,778,937	20,648,403
Hedging derivatives	7.18.7	53,661	139,578
Loans	7.18.4, 7.22	44,748,200	43,325,787
Deferred tax assets		444,947	369,445
Receivables, including insurance receivables	7.20, 7.22	6,755,190	3,270,793
Current income tax receivables		18,537	67,295
Cash and cash equivalents		1,708,065	2,439,863
Assets held for sale	7.23	1,461,897	1,506,048
Total assets		**112,945,227**	**105,397,237**

Equity and liabilities	**Note**	**30 June 2016**	**31 December 2015** (restated)[1)]
Equity			
Equity attributable to owners of the parent entity			
Share capital		86,352	86,352
Other reserves		10,917,259	10,141,607
Unappropriated result		767,588	2,695,760
Retained earnings		108,048	353,405
Net profit		659,540	2,342,355
Non-controlling interest		3,829,453	2,194,068
Total equity		**15,600,652**	**15,117,787**
Liabilities			
Technical provisions	7.24	41,701,717	41,280,321
Provisions for employee benefits		128,189	117,398
Other provisions	7.25	106,039	108,109
Deferred tax liabilities		560,192	509,157
Financial liabilities	7.26	47,198,454	44,694,449
Other liabilities	7.27	7,592,134	3,500,733
Current income tax liabilities		57,850	69,283
Total liabilities		**97,344,575**	**90,279,450**
Total equity and liabilities		**112,945,227**	**105,397,237**

[1)] Data as at 31 December 2015 have been restated in relation to the preparation of the purchase prize allocation of Alior Bank acquisition. The allocation did not result in a change in data for the periods before the acquisition of control of Alior Bank, i.e. 31 December 2015. Therefore, the data as at 1 January 2015 have not been presented. Additional information on the settlement is presented in 1.4.1.1.

(in PLN thousand)

4. Interim statement of changes in consolidated equity

Statement of changes in consolidated equity	Equity attributable to owners of the parent entity										Non-controlling interest	Total equity
	Share capital	Other reserves					Unappropriated result			Total		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses concerning provisions for employee benefits	Exchange differences from translation	Retained earnings	Net profit			
Balance as at 1 January 2016	**86,352**	**-**	**9,947,292**	**240,677**	**22**	**(4,404)**	**(41,980)**	**2,695,760**	**-**	**12,923,719**	**2,194,068**	**15,117,787**
Measurement of available-for-sale financial instruments	-	-	-	(55,856)	-	-	-	-	-	(55,856)	(14,290)	(70,146)
Cash flows hedging transactions	-	-	-	496	-	-	-	-	-	496	1,200	1,696
Exchange differences from translation	-	-	-	-	-	-	41,047	-	-	41,047	12	41,059
Property reclassified from property, plant and equipment to investment property	-	-	-	30	-	-	-	-	-	30	-	30
Other comprehensive income of entities measured using the equity method	-	-	-	-	-	9	-	-	-	9	-	9
Total other net comprehensive income	**-**	**-**	**-**	**(55,330)**	**-**	**9**	**41,047**	**-**	**-**	**(14,274)**	**(13,078)**	**(27,352)**
Net profit (loss)	-	-	-	-	-	-	-	-	659,540	659,540	130,304	789,844
Total comprehensive income	**-**	**-**	**-**	**(55,330)**	**-**	**9**	**41,047**	**-**	**659,540**	**645,266**	**117,226**	**762,492**
Other changes, including:	**-**	**(1,480)**	**797,737**	**(10,951)**	**4,620**	**-**	**-**	**(2,587,712)**	**-**	**(1,797,786)**	**1,518,159**	**(279,627)**
Profit appropriation	-	-	786,641	-	4,620	-	-	(2,587,389)	-	(1,796,128)[1)]	-	(1,796,128)[1)]
Issue of shares by related entities (Alior Bank)	-	-	-	-	-	-	-	-	-	-	1,518,159	1,518,159
Sale of revalued property	-	-	11,274	(10,951)	-	-	-	(323)	-	-	-	-
Own shares transactions	-	(1,480)	(178)	-	-	-	-	-	-	(1,658)	-	(1,658)
At 30 June 2016	**86,352**	**(1,480)**	**10,745,029**	**174,396**	**4,642**	**(4,395)**	**(933)**	**108,048**	**659,540**	**11,771,199**	**3,829,453**	**15,600,652**

[1)] The dividend determined by the General Shareholders' Meeting of PZU. Additional information on the issue is presented in 14.

(in PLN thousand)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity	Share capital	Equity attributable to owners of the parent entity									Non-controlling interest	Total equity
		Other reserves					Unappropriated result		Total			
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses concerning provisions for employee benefits	Exchange differences from translation	Retained earnings	Net profit			
Balance as at 1 January 2015	**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**3,194,193**	**-**	**13,166,336**	**1,292**	**13,167,628**
Measurement of available-for-sale financial instruments	-	-	-	2,492	-	-	-	-	-	2,492	-	2,492
Other comprehensive income of entities measured using the equity method	-	-	-	871	-	45	1	-	-	917	-	917
Exchange differences from translation	-	-	-	-	-	-	(6,559)	-	-	(6,559)	(15)	(6,574)
Actuarial gains and losses concerning provisions for employee benefits	-	-	-	-	-	1,730	-	-	-	1,730	-	1,730
Property reclassified from property, plant and equipment to investment property	-	-	-	7,201	-	-	-	-	-	7,201	-	7,201
Total other net comprehensive income	**-**	**-**	**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**-**	**5,781**	**(15)**	**5,766**
Net profit (loss)	-	-	-	-	-	-	-	-	2,342,355	2,342,355	(159)	2,342,196
Total comprehensive income	**-**	**-**	**-**	**10,564**	**-**	**1,775**	**(6,558)**	**-**	**2,342,355**	**2,348,136**	**(174)**	**2,347,962**
Other changes, including:	**-**	**110**	**268,371**	**(18,430)**	**(44)**	**-**	**28**	**(2,840,788)**	**-**	**(2,590,753)**	**2,192,950**	**(397,803)**
Profit appropriation	-	-	248,262	-	(44)	-	-	(2,838,771)	-	(2,590,553)	-	(2,590,553)
Changes in PZU Group's composition and transactions with non-controlling shareholders	-	-	(388)	-	-	-	28	-	-	(360)	2,192,950	2,192,590
Sale of revalued property	-	-	20,447	(18,430)	-	-	-	(2,017)	-	-	-	-
Transactions in own share	-	110	50	-	-	-	-	-	-	160	-	160
At 31 December 2015	**86,352**	**-**	**9,947,292**	**240,677**	**22**	**(4,404)**	**(41,980)**	**353,405**	**2,342,355**	**12,923,719**	**2,194,068**	**15,117,787**

(in PLN thousand)

Interim statement of changes in consolidated equity (continued)

Statement of changes in consolidated equity	Share capital	Equity attributable to owners of the parent entity									Non-controlling interest	Total equity
		Other reserves					Unappropriated result		Total			
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses concerning provisions for employee benefits	Exchange differences from translation	Retained earnings	Net profit			
Balance as at 1 January 2015	**86,352**	**(110)**	**9,678,921**	**248,543**	**66**	**(6,179)**	**(35,450)**	**3,194,193**	**-**	**13,166,336**	**1,292**	**13,167,628**
Measurement of available-for-sale financial instruments	-	-	-	(26,470)	-	-	-	-	-	(26,470)	-	(26,470)
Exchange differences from translation	-	-	-	-	-	-	(23,046)	-	-	(23,046)	(11)	(23,057)
Property reclassified from property, plant and equipment to investment property	-	-	-	4,441	-	-	-	-	-	4,441	-	4,441
Other comprehensive income of entities measured using the equity method	-	-	-	-	-	36	(7)	-	-	29	-	29
Total other net comprehensive income	**-**	**-**	**-**	**(22,029)**	**-**	**36**	**(23,053)**	**-**	**-**	**(45,046)**	**(11)**	**(45,057)**
Net profit (loss)	-	-	-	-	-	-	-	-	1,321,593	1,321,593	(66)	1,321,527
Total comprehensive income	**-**	**-**	**-**	**(22,029)**	**-**	**36**	**(23,053)**	**-**	**1,321,593**	**1,276,547**	**(77)**	**1,276,470**
Other changes, including:	**-**	**-**	**247,838**	**(4,348)**	**-**	**-**	**-**	**(2,834,133)**	**-**	**(2,590,643)**	**(332)**	**(2,590,975)**
Profit appropriation	-	-	243,202	-	-	-	-	(2,833,771)	-	(2,590,569)	-	(2,590,569)
Changes in PZU Group's composition and transactions with non-controlling shareholders	-	-	(74)	-	-	-	-	-	-	(74)	(332)	(406)
Sale of revalued property	-	-	4,710	(4,348)	-	-	-	(362)	-	-	-	-
At 30 June 2015	**86,352**	**(110)**	**9,926,759**	**222,166**	**66**	**(6,143)**	**(58,503)**	**360,060**	**1,321,593**	**11,852,240**	**883**	**11,853,123**

(in PLN thousand)

5. Interim consolidated cash flow statement

Consolidated cash flows statement	**1 January–30 June 2016**	**1 January–30 June 2015** *(restated)*
Profit before tax	1,048,920	1,618,954
Adjustments	1,067,711	(626,343)
Change in loan receivables from clients	(3,271,843)	-
Change in liabilities arising from deposits	4,134,960	-
Change in valuation of assets measured at fair value	(23,208)	(57,710)
Interest income	(564,069)	(635,299)
Realized investment profit/loss and impairment losses	470,449	(182,942)
Result from exchange differences	5,669	(85,912)
Change in deferred acquisition costs	(103,787)	(184,965)
Amortization of intangible assets and property, plant and equipment	218,140	188,847
Change in reinsurers' share in technical provisions	85,491	45,451
Reinsurer's share in written premiums	142,349	92,391
Change in technical provisions	421,396	567,489
Change in receivables	(181,115)	186,258
Change in liabilities	40,800	(29,451)
Cash flows from investment contracts	(90,205)	(329,773)
Acquisitions and repurchases of participation units and investment certificates in investment funds	55,375	349,829
Paid income tax	(232,689)	(389,593)
Other adjustments	(40,002)	(160,963)
Net cash flows from operating activities	**2,116,631**	**992,611**
Cash flows from investment activities		
Inflows	479,714,609	342,498,692
- disposal of investment property	40,140	28,313
- inflows from investment property	135,307	121,116
- disposal of intangible assets and property, plant and equipment	9,990	2,592
- disposal of shares	1,859,627	1,805,431
- redemption of debt instruments	64,001,392	23,458,296
- inflows from buy-sell-back transactions	193,406,816	177,487,405
- withdrawal of term deposits at credit institutions	171,323,998	102,175,847
- inflows from other investments	48,405,558	36,826,270
- interest received	507,505	550,033
- dividends received	10,246	20,042
cash acquired from mergers and from changes in consolidation scope	-	537
- other inflows from investments	14,030	22,810

(in PLN thousand)

Interim consolidated cash flow statement (continued)

Consolidated cash flows statement	**1 January– 30 June 2016**	**1 January– 30 June 2015** *(restated)*
Outflows	(481,844,551)	(340,412,528)
- acquisition of investment property	(137,848)	(136,718)
- outflows for maintenance of investment property	(79,996)	(95,408)
- acquisition of intangible assets and property, plant and equipment	(152,906)	(149,694)
- acquisition of shares	(1,863,104)	(2,367,633)
- acquisition of shares in subsidiaries	(343,871)	(31,151)
- decrease in cash balance due to changes in the consolidation scope	-	(215,307)
- acquisition of debt instruments	(67,410,149)	(22,467,298)
- opening buy-sell-back transactions	(192,254,246)	(177,226,856)
- acquisition of term deposits at credit institutions	(170,946,955)	(100,554,087)
- acquisition of other investments	(48,654,510)	(37,163,147)
- other investments outflows	(966)	(5,229)
Net cash flow from investment activities	**(2,129,942)**	**2,086,164**
Cash flows from financing activities		
Inflows	177,680,153	167,272,145
- inflows from the issuance of shares by subsidiaries (in the part paid for by non-controlling shareholders)	1,502,141	-
- inflows from loans	38,675	31,966
- inflows due to issuance of debt instruments	264,078	-
- opening sell-buy-back transactions	175,875,259	167,240,179
Outflows	(178,411,025)	(170,079,476)
- dividends paid to owners of the parent entity	-	(1,468,017)
- repayment of loans	(2,076)	(126,364)
- inflows from sell-buy-back transactions	(178,387,443)	(168,482,423)
- interest from loans	(2,149)	(2,447)
- interests from issued debt instruments	(19,329)	-
- other financial outflows	(28)	(225)
Net cash flow from financing activities	**(730,872)**	**(2,807,331)**
Total net cash flows	**(744,183)**	**271,444**
Cash and cash equivalents at the beginning of the financial year	2,439,863	324,007
Change in cash due to exchange differences	12,385	3,538
Cash and cash equivalents at the end of the financial year, including:	1,708,065	598,989
- not available for use	67,423	58,992

[1)] Information on the causes of the restatement is presented in 3.3.1.

Additional information to the condensed interim consolidated financial statements

1. About PZU and PZU Group

1.1 PZU

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

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

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

(in PLN thousand)

1.2 PZU Group entities

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				30 June 2016	31 December 2015	
Consolidated subsidiaries						
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA	Warsaw	18.12.1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15.09.2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20.11.2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31.10.2014	99.98%	99.98%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga (Latvia)	30.06.2014	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated subsidiaries – Alior Bank Capital Group						
10	Alior Bank SA [1)]	Warsaw	18.12.2015	29.22%	23.96% [2)]	Banking services. https://www.aliorbank.pl/
11	Alior Services sp. z o.o. [1)]	Warsaw	18.12.2015	29.22%	23.96% [2)]	Other activity auxiliary to financial services excluding insurance and pension funds.
12	Centrum Obrotu Wierzytelnościami sp. z o.o. [1)]	Cracow	18.12.2015	29.22%	23.96% [2)]	Trading in receivables.
13	Alior Leasing sp. z o.o. [1)]	Wrocław	18.12.2015	29.22%	23.96% [2)]	Leasing services. https://www.aliorbank.pl/wlasna-dzialalnosc/alior-leasing.html
14	Meritum Services ICB SA [1)]	Gdańsk	18.12.2015	29.22%	23.96% [2)]	IT services.
15	Money Makers TFI SA [1)]	Warsaw	18.12.2015	17.68% [3)]	14.49% [2) 3)]	Asset management and managing Alior SFIO sub-funds. http://www.moneymakers.pl
16	New Commerce Services sp. z o.o. [1)]	Warsaw	18.12.2015	29.22%	23.96% [2)]	Auxiliary operations.
17	Absource sp. z o.o.	Cracow	04.05.2016	29.22%	n/a	IT services.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				30 June 2016	31 December 2015	
Consolidated subsidiaries – other units						
18	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	08.12.1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
19	PZU Centrum Operacji SA	Warsaw	30.11.2001	100.00%	100.00%	Auxiliary activities related to insurance and pension funds.
20	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30.04.1999	100.00%	100.00%	Establishment, representation and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
21	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
22	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	Financial services.
23	PZU Finanse sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	Financial and accounting services.
24	Tower Inwestycje sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	Other services.
25	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	Acquiring, operating, renting and selling of real property. http://www.ogrodowainwestycje.pl/
26	PZU Zdrowie SA [4)]	Warsaw	02.09.2011	100.00%	100.00%	Health care services. http://www.pzu.pl/pzu-zdrowie
27	Centrum Medyczne Medica sp. z o.o.	Płock	09.05.2014	100.00%	100.00%	Health care services. http://cmmedica.pl/
28	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12.05.2014	100.00%	100.00%	Health care services. http://cmprofmed.pl/
29	Sanatorium Uzdrowiskowe „Krystynka" sp. z o.o.	Ciechocinek	09.05.2014	99.09%	99.09%	Hospital, rehabilitation and spa therapy services. http://www.sanatoriumkrystynka.pl/
30	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	01.12.2014	100.00%	100.00%	Health care services. http://www.elvita.pl/
31	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	01.12.2014	57.00%	57.00%	Health care services. http://www.proelmed.pl/
32	Rezo-Medica sp. z o.o.	Płock	23.04.2015	100.00%	100.00%	Health care services. http://rezo-medica.pl/
33	Centrum Medyczne Gamma sp. z o.o.	Warsaw	08.09.2015	60.46%	60.46%	Health care services. http://www.cmgamma.pl/
34	Medicus w Opolu sp. z o.o.	Opole	30.09.2015	100.00%	100.00%	Health care services. http://medicus.opole.pl/
35	Centrum Medyczne Cordis sp. z o.o. [5)]	Poznań	01.02.2016	100.00%	n/a	Health care services. http://www.cordis.com.pl/
36	Arm Property sp. z o.o.	Cracow	26.11.2014	100.00%	100.00%	Purchase and sales of property.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				30 June 2016	31 December 2015	
Consolidated subsidiaries – other units – continued						
37	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	Assistance and health care services.
38	PZU Asset Management SA	Warsaw	12.07.2001	100.00%	100.00%	The company does not conduct business operations.
39	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	The company does not conduct business operations.
40	Omicron BIS SA	Warsaw	28.08.2014	100.00%	100.00%	The company does not conduct business operations.
41	Sigma BIS SA	Warsaw	12.12.2014	100.00%	100.00%	The company does not conduct business operations.
42	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	Assistance services.
43	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	100.00%	The company does not conduct business operations.
Consolidated subsidiaries – Armatura Capital Group						
44	Armatura Kraków SA	Cracow	07.10.1999	100.00%	100.00%	Distribution of products of Armatura Group, administration and management of the Armatura Group. http://www.grupa-armatura.pl/
45	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	Production and distribution of radiators and sanitary fixtures and fittings.
46	Aquaform SA	Środa Wlkp.	15.01.2015	100.00%	100.00%	Manufacturing of bathroom fittings.
47	Aquaform Badprodukte GmbH	Anhausen (Germany)	15.01.2015	100.00%	100.00%	Wholesale.
48	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15.01.2015	100.00%	100.00%	Wholesale.
49	Aquaform Romania SRL	Prejmer (Romania)	15.01.2015	100.00%	100.00%	Wholesale.
50	Morehome.pl sp. z o.o.	Środa Wlkp.	15.01.2015	100.00%	100.00%	The company does not conduct business operations.
Consolidated subsidiaries – investment funds						
51	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	Investment of funds collected from the participants of the fund.
52	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	As above.
53	PZU FIZ Sektora Nieruchomości [6)]	Warsaw	01.07.2008	n/a	n/a	As above.
54	PZU FIZ Sektora Nieruchomości 2 [6)]	Warsaw	21.11.2011	n/a	n/a	As above.

(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/equity and % of voting rights directly or indirectly held by PZU		Scope of business and website
				30 June 2016	31 December 2015	
Consolidated subsidiaries – investment funds – continued						
55	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	As above.
56	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19.11.2012	n/a	n/a	As above.
57	PZU FIZ Surowcowy	Warsaw	03.09.2015	n/a	n/a	As above.
58	PZU FIO Globalny Obligacji Korporacyjnych	Warsaw	30.05.2016	n/a	n/a	As above.
59	PZU Sejf+	Warsaw	30.09.2015	n/a	n/a	As above.
60	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
61	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	As above.
62	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	As above.
63	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	As above.
64	PZU FIZ Akcji Focus	Warsaw	10.12.2015	n/a	n/a	As above.
Associates						
65	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	Insurance management.
66	EMC Instytut Medyczny SA	Wrocław	18.06.2013	28.31%	28.31%	Health protection, R&D in medical sciences and pharmacy.

1) Information about the acquisition of Alior Bank SA along with its subsidiaries is presented in point 1.4.1.1.
2) Share of PZU Group in Alior Bank's share capital and voting rights at the General Meeting of Shareholders determined on the basis of the number of shares held by PZU (I and II tranche), PZU Życie and consolidated investment funds. The figure does not include shares acquired by PZU under tranche III of the transaction described in 1.4.1.1.
3) Company directly controlled by Alior Bank where it holds 60.49%. As a result, PZU Management Board assumes that PZU Group exercises control over the company.
4) Acquisition of Nasze-Zdrowie sp. z o.o. by PZU Zdrowie SA was registered on 30 June 2016. Additional information on this transaction has been presented in Note 1.4.4.
5) Information about the acquisition of Centrum Medyczne Cordis sp. z o.o. is presented in point 1.4.1.2.
6) As at 30 June 2016, the PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 funds conducted investment operations through special purpose vehicles (included in the consolidation), whose number in particular funds amounted to: 24 and 11, respectively (31 December 2015: 24 and 11).

But for the companies listed in the table, as at 30 June 2016, PZU Group owned 100% of shares in Syta Development sp. z o.o. in liquidation that is controlled by the official receiver independent from PZU Group and, therefore, the company was not subjected to consolidation. The carrying amount of these shares in the consolidated statement of financial standing of PZU Group amounted to 0.

(in PLN thousand)

1.3 Non-controlling interest

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

Name of entity	30 June 2016	31 December 2015
Alior Bank [1)]	70.78%	70.78%[2)]
Gamma	39.54%	39.54%
Proelmed	43.00%	43.00%
SU Krystynka	0.91%	0.91%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
Lietuvos Draudimas AB	0.02%	0.02%
AAS Balta	0.01%	0.01%

[1)] Alior Bank has the following subsidiaries: Alior Services sp. z o.o., Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA, Money Makers TFI SA (non-controlling interest in this company is 82.32%), New Commerce Services sp. z o.o., Absource sp. z o.o. (as of 4 May 2016).
[2)] Value of non-controlling interest of Alior Bank was represented by means of recognizing tranche III of the transaction specified in 1.4.1.1.

As at 30 June 2016, the carrying amount of non-controlling interest at Alior Bank was settled at PLN 3,823,479 thousand (as at 31 December 2015: PLN 2,188,489 thousand). The increase since 31 December 2015 results from an additional capital issuance of Alior Bank, referred to in **Błąd! Nie można odnaleźć źródła odwołania.**

The tables below present condensed financial data of Alior Bank Capital Group (based on the final fair value as at the acquisition date) recognized in the condensed interim consolidated financial statements.

Assets	30 June 2016	31 December 2015
Intangible assets	561,227	581,706
Other assets	200,885	109,378
Property, plant and equipment	218,312	228,955
Financial assets	44,006,247	35,766,790
Available for sale	9,041,458	4,866,713
Measured at fair value through profit or loss	402,487	390,569
Hedging derivatives	53,661	139,578
Loans	34,508,641	30,369,930
Change in deferred tax assets	412,293	349,440
Receivables, including insurance receivables	375,958	484,862
Cash and cash equivalents	892,396	2,089,579
Assets held for sale	696	888
Total assets	**46,668,014**	**39 ,611,598**

Equity and liabilities	30 June 2016	31 December 2015
Equity		
Equity attributable to the owners of the parent entity		
Share capital	1,292,577	727,075
Other reserves	4,352,990	2,479,793
Unappropriated result	(243,401)	(114,769)
Non-controlling interest	1,139	1,240
Total equity	**5,403,305**	**3,093,339**
Liabilities		
Provisions for employee benefits	15,235	26,269
Other provisions	10,283	8,731
Financial liabilities	40,471,052	35,921,048
Current income tax liabilities	18,787	21,776
Other liabilities	749,352	540,435
Total liabilities	**41,264,709**	**36,518,259**
Total equity and liabilities	**46,668,014**	**39,611,598**

(in PLN thousand)

Due to the acquisition of Alior Bank and subjecting it to consolidation since 18 December 2015, the data for the period of 6 months ended on 30 June 2015 have not been presented in the consolidated profit or loss account, consolidated statement of comprehensive income, and consolidated cash flow statement.

Profit or loss account	**1 January– 30 June 2016**
Revenue from commissions and fees	275,104
Net investment income	1,343,438
Net result on realization and impairment losses on investments	(322,511)
Net change in the fair value of assets and liabilities measured at fair value	45,205
Other operating income	46,087
Costs of commissions and fees	(111,685)
Interest expense	(350,951)
Administrative expenses [1]	(494,861)
Other operating expenses [2]	(183,956)
Operating profit [1][2]	**245,870**
Profit before tax [1][2]	**245,870**
Income tax	(61,426)
Net profit [1][2]	**184,444**

[1] Decreased by PLN 5,035 thousand due to the settlement of liabilities arising from unfavorable property lease agreements recognized as a result of the acquisition of Alior Bank.
[2] Including costs in the amount of PLN 22,790 thousand arising from the amortization of intangible assets (customer relations concerning clients holding CDIs) acquired in the transaction of Alior Bank acquisition.

Statement of comprehensive income	**1 January– 30 June 2016**
Net profit	184,444
Other comprehensive income – amounts subject to subsequent transfer to profit or loss account	(18,495)
Measurement of available-for-sale financial instruments	(7,863)
Net cash flows hedge	(10,632)
Total net comprehensive income	**165,949**

Cash flow statement	**1 January– 30 June 2016**
Net cash flows from operating activities	1,531,608
Net cash flow from investment activities	(5,140,718)
Net cash flow from financing activities	2,405,828
Total net cash flows	**(1,203,282)**

In the period when PZU Group exercised control over Alior Bank, Alior Bank did not pay out dividends.

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

1.4.1. Business combination

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

The detailed accounting conditions concerning the settlement of the acquisition are presented in the consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for 2015.

1.4.1.1. Acquisition of Alior Bank

Under the preliminary share purchase agreement signed on 30 May 2015 concerning the sale of Alior Bank's shares, PZU acquired 17,818,473 shares of Alior Bank from Alior Lux S.à.r.l. & Co. S.C.A ("Seller 1") and 500,000 shares of Alior Bank from Alior Polska sp. z o.o. ("Seller 2"), i.e. 18,318,473 shares in total, representing 25.19% of both the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

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

The acquisition of the first tranche was settled on 12 October 2015, the second – on 18 December 2015, and the third tranche of the transaction was settled on 11 March 2016. Between 12 October 2015 and 18 December 2015, PZU Group did not exercise control over Alior Bank, but had a significant influence, and, as a result, Alior Bank was considered a subsidiary at that time. Following the acquisition of the second tranche, PZU Group gained control over Alior Bank, and, as a result, on 18 December 2015 the bank was subjected to consolidation. Also, the following subsidiaries of Alior Bank were subjected to consolidation: Alior Services sp. z o.o, Centrum Obrotu Wierzytelnościami sp. z o.o., Alior Leasing sp. z o.o., Meritum Services ICB SA, Money Makers TFI SA, New Commerce Services sp. z o.o.

Following the acquisition of the three tranches, PZU directly holds 18,318,473 shares of Alior Bank representing 25.19% of Alior Bank's share capital and votes at the General Meeting of Shareholders of Alior Bank. In addition, through investment funds controlled by PZU Życie, PZU indirectly holds 4.03% of the share capital of Alior Bank and the total number of votes at the General Meeting of Shareholders of Alior Bank.

Final purchase price allocation of Alior Bank acquisition

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

The condensed interim financial statements include the final fair value of the acquired assets and liabilites (mainly the loan portfolio).

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

- trade mark;
- customer relations;
- liability arising from unfavorable lease agreements.

The method of determing fair value of the trademark and cutomer relations has been presented in the Consolidated financial statements of PZU Group for 2015.

Credits and loans granted to clients

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

Individual customer portfolio

For the purposes of the valuation, the individual clients portfolio was divided into three product groups: mortgage loans, loans, and other credits.

Performing loans – individual clients

For performing loans, the current value of cash flows was determined as the sum of contractual principal and interest payments (in accordance with contractual margin rates and unpaid part of the principal amount), including overpayments ratio, discounted by the average basic reference rate increased by the effective interest rate margin on newly granted credits.

The average rate calculated on a daily basis for appropriate indices for the period of three months preceding the acquisition date of Alior Bank was applied as the average basic reference rate (WIBOR, LIBOR).

The average values weighted by the unpaid principal amount for the new business performed in the first quarter of 2016 (which was considered as the one most accurately reflecting sale conditions offered by Alior Bank as at 31 December 2015) were applied as reference effective interest rates used for discounting contractual cash flows. Effective interest rates were divided by currency, product group and client scoring.

In order to include in the model the prepayments for credit installments made by the clients, the model of economic life cycles was applied. The prepayment ratio was included only in the case of the loans and mortgage loans, assuming that in the case of other products the matter is insignificant.

Performing loans – business clients

The assumptions used in the measurement of business clients portfolio were the same as in the case of individual clients portfolio, with the exceptions described below:

• in determining reference effective interest rates the size of the enterprise was taken into account instead of clients' scoring;

• prepayment ratio was not taken into account, while it was considered iinsignificant.

For the sample of the clients largest in terms of the total value of unpaid principal amount, an individual analysis of contractual pricing conditions and pricing conditions which would be offered to the same clients as at 31 December 2015 was performed. Due to the high dependency of the margin offered to business clients on the client's rating, an additional analysis covering the changes in ratings from the moment of granting a loan to 31 December 2015 was performed. On its basis it was concluded that in the case of the business clients no significant changes in ratings occurred. Taking into account the financial and economic standing of the clients as at 31 December 2015 and the market conditions effective at that time, it was concluded that the price conditions of the offered products would not significantly differ from the contractual pricing conditions.

Besides the individual assessment of the largest clients, an analysis of the effective interest rates for the whole business clients portfolio was performed. The analysis showed that the margins applied for the portfolio are stable and that the average margins of the whole portfolio, as at 31 December 2015, do not differ from the margins achieved on the new sale in the first quarter of 2016.

As a result of the analyses, it was determined that the fair value of the credit portfolio offered to business clients do not differ substantially from the carrying amount recognized in the consolidated financial statements of Alior Bank.

Credits with no determined payment schedules

In the case of credits with no determined payment schedules and credits with no determined referential rate (due to a lack of sales of comparable products in the first quarter of 2016), it was assumed that the fair value is equal to their carrying amount.

Non-performing loans

Based on the analysis of the purchase prices of non-performing loan portfolios it was determined that the values of these portfolios resulting from the models applied by Alior Bank do not differ substantially from their market values, which was confirmed by the backtesting of the scoring models, LAG analysis and analysis of the portfolio available for sale as at 31 December 2015. In effect, it was assumed that the fair value of these credits is equal to their carrying amount.

Liabilities from unfavorable lease agreements

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

The purchase price allocation of Alior Bank acquisition based on the fair value of the acquired assets and liabilities is presented below.

Fair value of the acquired assets and liabilities at the acquisition date	Provisional settlement (in PLN thousand)	Adjustment	Final settlement (in PLN thousand)
Intangible assets	281,706	-	281,706
Property, plant and equipment	228,955	-	228,955
Financial assets	35,844,054	(77,264) [1)]	35,766,790
Other receivables	484,862	-	484,862
Cash	2,089,579	-	2,089,579
Other assets	439,450	20,256 [2)]	459,706
New intangible assets identified during the acquisition, including:	300,000	-	300,000
- trademark	100,000	-	100,000
- customer relations	200,000	-	200,000
Total assets	**39,668,606**	**(57,008)**	**39,611,598**
Financial liabilities	35,921,048	-	35,921,048
Other liabilities	567,863	29,348	597,211
- including liabilities arising from unfavorable lease agreements	-	29,348	29,348
Non-controlling interest	1,240	-	1,240
Fair value of the net assets acquired	**3,178,455**	**(86,356)**	**3,092,099**

[1)] The amount of the adjustment results from the final fair value measurement of the loan portfolio of Alior Bank.
[2)] The amount of the adjustment results from the value measurement of the deferred tax asset relating to the measurement of loan receivables and recognized liability arising from unfavorable lease agreements.

Calculation of goodwill	Provisional settlement (in PLN thousand)	Adjustment	Final settlement (in PLN thousand)
Consideration transferred (tranche II and III) – in cash	988,316	-	988,316
Value of non-controlling interest (a 70.78% share in fair value of Alior Bank net assets)	2,249,609	(61,120)	2,188,489
Fair value of shares held at the acquisition date	661,099	-	661,099
Fair value of net identifiable assets of Alior Bank	(3,178,455)	86,356	(3,092,099)
Goodwill	**720,569**	**25,236**	**745,805**

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

1.4.1.2. Acquisition of shares in Centrum Medycznego Cordis sp. z o.o.

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

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

1.4.1.3. Taking over SKOK by Alior Bank

In the period of 6 months ended on 30 June 2016, Alior Bank acquired two credit union entites (SKOK – Spółdzielcza Kasa Oszczędnościowo-Kredytowa)). As of the acquisition date, Alior Bank assumed all rights and obligations of the acquired union (pursuant to Article 74c section 4 of the Act on Cooperative Savings and Credit Unions).

The acquisitions did not entail a payment made by Alior Bank. The acquisition process was conducted with financial support provided by BGF pursuant to Article 20g of the Bank Guarantee Fund Act. Alior Bank will receive support from BGF in a form of a subsidy to cover a difference between the value of acquired equity rights and the liabilities arising from guaranteed funds at depositors' accounts. Initially estimated value of the subsidy was recognized under "Other assets".

Taking over Kasa Oszczędnościowo-Kredytowa im. Stefana Kard. Wyszyńskiego

On 26 January 2016, PFSA issued a decision concerning taking over Kasa Oszczędnościowo-Kredytowa im. Stefana Kard. Wyszyńskiego ("SKOK Wyszyńskiego") by Alior Bank. On 27 January 2016, Alior Bank assumed management over the assets of SKOK Wyszyńskiego, and as of 1 March 2016 it took over SKOK Wyszyńskiego.

Purchase price allocation of SKOK Wyszyńskiego acquisition

Fair value of the acquired assets and liabilities at the acquisition date	(in PLN thousand)
Financial assets	111,515
Other assets	1,617
Total assets	**113,132**
Liabilities to clients guaranteed by the BGF	164,385
Other liabilities	2,747
Fair value of the net assets acquired	**(54,000)**

Calculation of goodwill	(in PLN thousand)
Consideration transferred	-
Fair value of the net assets acquired	(54,000)
Estimated subsidy from BGF	52,534
Goodwill	**1,466**

Goodwill generated mainly on the trade liabilities not covered by BGF subsidy was fully written off.

Taking over Kasa Oszczędnościowo-Kredytowa in Knurów

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

Provisional purchase price allocation of Powszechna SKOK acquisition

To the date of the publication of these interim condensed consolidated financial statements, the purchase price allocation of Powszechna SKOK acquisition has not been finalized.

Provisional fair value of the acquired assets and liabilities at the acquisition date	(in PLN thousand)
Financial assets	25,573
Other assets	403
Total assets	**25,976**
Liabilities to clients guaranteed by the BGF	35,507
Other liabilities	6,582
Provisional fair value of the net assets acquired	**(16,113)**

Calculation of goodwill	(in PLN thousand)
Consideration transferred	-
Fair value of the net assets acquired	(16,113)
Estimated subsidy from BGF	9,531
Goodwill	**6,582**

Goodwill generated mainly on the trade liabilities not covered by BGF subsidy was fully written off.

1.4.2. Changes in the scope of consolidated investment funds

As of 30 May 2016, a newly founded fund PZU FIO Globalny Obligacji Korporacyjnych has been subjected to consolidation.

1.4.3. Deregistration of Międzyzakładowe Pracownicze Towarzystwo Emerytalne SA

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

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

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

1.4.5. Combinations of entities under common control

On 13 May 2016, the General Meeting of Shareholders of PZU Zdrowie SA adopted a resolution on combination of PZU Zdrowia SA (acquirer) and Nasze Zdrowie sp. z o.o. (acquiree), in which PZU Zdrowie SA acted as a sole shareholder. The merger was conducted by means of transferring entire equity of the acquiree to the acquirer. The merger was registered in the National Court Register on 30 June 2016.

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

1.5 Additional capital issuance in Alior Bank

Based on the Resolution No. 3 of the Extraordinary Meeting of Shareholders of Alior Bank (a subsidiary of PZU) of 5 May 2016 on increasing Alior Bank’s share capital by issuing Series I shares in a closed subscription performed through the public offer, determining the date of 23 May 2016 as the date of pre-emptive right for the Series I shares, transferring the competences to give a consent to the conclusion of the underwriting agreement to the Supervisory Board of Alior Bank, dematerialization, and applying for admittance of pre-emptive right, rights to shares and Series I shares to trading on the regulated market operated by WSE and changing the By-laws, as well as authorization of the Supervisory Board of Alior Bank to determine the new consolidated text of the By-laws, the increase in Alior Bank share capital by 56,550,249 Series I ordinary bearer shares with the nominal value of PLN 10 each and the issue price of PLN 38.90 took place. On 24 June 2016, the registration of shares in the National Court Register took place, and on 27 June 2016 they were registered by the National Depository for Securities.

PZU Group obtained 16,525,801 shares, accounting for 29.22% of the new shares (in proportion to the currently owned share). In effect, the share of PZU Group in Alior Bank's share capital and voting rights at the General Meeting of Shareholders did not change.

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

2.1 Composition of the parent entity's Management Board

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

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

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

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

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

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

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

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

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

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

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

Composition of the Management Board of PZU between 23 June 2016 and the date of signing these financial statements:

- Michał Krupiński – President of the PZU Management Board;
- Roger Hodgkiss – Member of the PZU Management Board;
- Andrzej Jaworski – Member of the PZU Management Board;
- Sebastian Klimek – Member of the PZU Management Board;
- Beata Kozłowska-Chyła – Member of the Management Board;
- Maciej Rapkiewicz – Member of the Management Board.

2.2 Composition of the parent entity's Supervisory Board

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

- Zbigniew Ćwiąkalski – President of the Supervisory Board;
- Paweł Kaczmarek – Vice-President of the Supervisory Board;
- Dariusz Filar – Secretary of the Supervisory Board;
- Zbigniew Derdziuk – Member of the Board;

- Dariusz Kacprzyk – Member of the Board;
- Jakub Karnowski – Member of the Board;
- Aleksandra Magaczewska – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Maciej Piotrowski – Member of the Board.

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

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

On 1 July 2016, Jerzy Paluchniak resigned from the position of Member of the Supervisory Board of PZU as at 1 July 2016.

On 1 July 2016, the General Meeting of Shareholders of PZU appointed Piotr Walkowiak as a Member of the Supervisory Board as of 2 July 2016.

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

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

Composition of the Supervisory Board of PZU between 4 August 2016 and the date of signing these financial statements:

- Paweł Kaczmarek – President of the Board;
- Marcin Gargas – Vice-President of the Board;
- Maciej Zaborowski – Secretary of the Board;
- Marcin Chludziński – Member of the Board;
- Eligiusz Krześniak – Member of the Board;
- Alojzy Nowak – Member of the Board;
- Jerzy Paluchniak – Member of the Board;
- Piotr Paszko – Member of the Board;
- Radosław Potrzeszcz – Member of the Board.

2.3 Directors in the Group

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

Directors at PZU Group from 1 January 2016:

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

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

Between 25 March 2016 and the date of signing these financial statements, the Directors of PZU Group were:

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

3. Summary of significant accounting policies

The detailed accounting policies are presented in the consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group for 2015, signed by the Management Board of PZU on 14 March 2016 ("The consolidated financial statements of PZU Group for 2015").

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

The accounting policies applied in order to prepare the condensed interim consolidated financial statements are in line with the policies applied in order to prepare the consolidated financial statements of PZU Group for 2015.

Entities within PZU Group maintain their accounting records in accordance with accounting principles applicable locally in the country where a given entity is seated:

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

These condensed interim consolidated financial statements include adjustments made in order to provide compliance of the financial data of the above entities with IFRS.

3.1 Subsidiary acquisitions

The acquisition of subsidiaries by PZU Group is settled for using the acquisition method. In the case of acquisition of an entity, an acquier is determined as well as the acquisition date being the day on which it obtains control of the acquiree. On the acquisition date, identifiable assets acquired, liabilities assumed and non-controlling interest in the acquiree are recognized separately from goodwill.

All identifiable assets and assumed liabilities are measured at fair value on the acquisition date.

3.2 Changes in accounting policies, accounting estimates and errors

(in PLN thousand)

3.2.1. Changes in the applied IFRS

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

Standard/Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendment to IAS 16 and IAS 41 – Bearer plants	1 January 2016	2113/2015	The amendment introduces a definition of bearer assets and removes them from the scope of the application of IAS 41 by moving them to IAS 16, which will result in change in the method of valuation. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 11 – Settlement of acquisition of shares in a joint venture	1 January 2016	2173/2015	The amendment clarifies that the purchaser of the shares in joint operations must comply with all the rules regarding acquisition accounting under IFRS 3 and other IFRSs that are not in conflict with IFRS 11 and disclose the information required by these standards. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IAS 16 and IAS 38 – an explanation acceptable methods of depreciation	1 January 2016	2231/2015	The amendment clarifies that the adoption of depreciation methods based on revenues generated by the assets is not appropriate. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2012–2014	1 January 2016	2343/2015	Amendments to IFRS 5 – adding guidance on how to reclassify assets held for sales to assets held for distribution to owners and conversely, and instances of discontinued classification of assets held for distribution to owners. Amendments to IFRS 7 – adding guidance on how to conduct disclosures of contracts on handling assets and explanations of amendments applied to IFRS 7 concerning offsetting in condensed interim financial statements. Amendment to IFRS 19 – explanation that high quality corporate bonds used for the estimation of the discount rate applied to calculate post-employment benefits shall be denominated in the same currency in which the benefits will be paid (hence, the market activity concerning the bonds should be evaluated at the currency level). Amendments to IAS 34 – clarification of terms. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IAS 1 – Disclosure initiative	1 January 2016	2406/2015	Adding requirements with respect to an orderly layout of financial statements, introduction of the requirement of reconciling indirect totals in the profit or loss account, comprehensive profit or loss account, statement of financial standing, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment resulted in minor modifications of the layout of basic tables in consolidated financial statements of PZU Group.
Amendment to IAS 27 – Equity method in separate financial statements	1 January 2016	2441/2015	The amendment allows entities to use the equity method in the valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

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

(in PLN thousand)

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

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 – Financial instruments	24 July 2014	1 January 2018	The standard replaces IAS 39 and establishes the requirements regarding the recognition and measurement of impairment, derecognition of financial instruments and hedge accounting. The standard introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model associated with the given assets. The standard unifies the impairment model for all financial instruments. The new expected loss impairment requires faster recognition of expected credit losses. The standard introduces a reformed model of hedge accounting, with enhanced disclosure requirements for risk management activities. As IFRS 9 and IFRS 4 Phase II concerning insurance contracts entered into force on different dates (the latter standard will enter into force no sooner than in 2020), it is now under consideration whether different approaches may be adopted so as to eliminate from the profit or loss account significant volatilities related to applying the changes in financial asset valuation at an earlier point than the ones related to the valuation of insurance contracts. The Council considers the following transition approaches (in the period between 1 January 2018 and the date of entry into force of the new IFRS 4): • transparent separation of the results from the difference in the valuation of financial assets related to insurance activity pursuant to IFRS 9 and IAS 39 from the account and presenting thereof in other comprehensive income; • in the case of capital groups conducting both insurance and banking activity – the option to apply IAS 39 to the valuation of all financial assets in consolidated financial statements when insurance activity is the dominant one (i.e. when insurance liabilities constitute at least ¾ of the liabilities of the capital group). If the insurance activity is not the dominant one, all financial assets in the consolidated financial statements have to be measured in accordance with IFRS 9; • financial assets related to insurance activity can be measured pursuant to IAS 39, while other financial assets can be measured pursuant to IFRS 9. After Alior Bank is included in consolidation, PZU Group does not meet the criterion allowing for the application of the second presented simplification. Due to the long lead time of entry into force of IFRS 9 and lack of the final shape of changes to IFRS 4 in scope of transitional arrangements, no estimates of the impact of IFRS 9 on the total income and equity of PZU Group were made.
IFRS 14 – Regulatory accruals	30 January 2014	1 January 2016 [1)]	Allowing entities applying IFRS for the first time, and which now the regulatory deferral accounts in accordance with their previous generally accepted accounting principles, the continuation of the recognition of these balances in the transition to IFRS. The change does not affect PZU Group.
IFRS 15 – Revenue from	28 May 2014 and changes	1 January 2018 [2)]	IFRS 15 defines how and when to recognize revenues and requires the provision of more detailed disclosures. The

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
contracts with customers	of 11 September 2015 and explanations of 12 April 2016		standard replaces IAS 18 "Revenue", IAS 11 "Construction contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard concerns the recognition of revenues in such a way as to reflect the transfer of goods or services to customers and in such amount that reflects the amount of remuneration (i.e. payments), to which the company expects to obtain the rights in exchange for goods or services. The standard provides also guidelines for recognition of transactions which were not regulated in detail by the hitherto applicable standards (e.g. revenues from services or amendments of contracts), as well as broader explanations concerning recognition of multi-element contracts. Due to the long lead time of entry into force and the lack of application in relation to insurance companies of PZU Group, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 16 – Leasing	13 January 2016	1 January 2019	IFRS 16 replaced IAS 17 *Leasing* and the related interpretations of the standard. With respect to lessees, the new standard eliminates the distinction between finance and operating leases. The recognition of operating leases in the statement of financial standing leads to the recognition of a new asset – the right to use the object of lease – and a new liability – liabilities from lease payments. The rights to use the leased assets will be subject to accumulated depreciation and the liabilities will be charged with interest. As a result, higher costs in the initial stage of the lease will be generated, even if the parties agreed on fixed annual fees. The recognition of leases in most cases will remain unchanged, as the distinction between operating and finance leases did not change. Due to the long lead time of entry into force and the recent publication of the new standard, the potential impact of adopting the new standard on comprehensive revenues and equity has not been yet estimated.
Amendments to IAS 7 – Disclosure initiative	29 January 2016	1 January 2017	The amendments include the presentation of disclosures enabling the assessment of changes in the value of liabilities arising from financial activities (resulting both from cash flows and non-cash changes). In order to apply the requirements, additional disclosures will need to be included in the consolidated financial statements of PZU Group.
Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses	19 January 2016	1 January 2017	The amendments clarify, among other things, that unrealized losses related to debt instruments measured at fair value, with tax values equal to their initial cost, may lead to negative temporary differences. The amendment will not affect the consolidated financial statements of PZU Group.
Amendments to IFRS 2 – Classification and measurement of share-based payment transactions	20 June 2016	1 January 2018	The amendment covers the guidance unifying the accounting requirements for the cash-settled share-based payment transactions, which adopts the same approach as in the case of equity instruments-settled share-based payment transactions, an exception in IFRS 2, and the explanation to the situation in which cash-settled share-based payment changes into equity instruments-settled share-based payment due to a change in the contractual terms. The amendment will not affect the consolidated financial statements of PZU Group.

(in PLN thousand)

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associated entity or a joint venture	11 September 2014	Deferred for an indefinite time	The major effect of the amendment is recognition of the full profit or loss whenever a transaction concerns organized business (irrespective of whether it is located within a subsidiary or not); partial profits or losses are recognized when a transaction concerns particular assets that do not form organized business, even when they are located in a subsidiary. The amendment will not affect the consolidated financial statements of PZU Group.
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: exemptions from consolidation applied	18 December 2014	1 January 2016	IFRS 10 – adding supplementary guidance instructing investment entities to perform obligatory consolidation of non-investment subsidiaries rendering services related to investment; adding guidance on the lack of duty to perform consolidated statements in the case of lower-level parent entities being subsidiaries of investment entities. IAS 28 – adding guidance on the application of measurement using the equity method by an investor not being an investment entity with respect to an associated investment entity or a joint-venture. The amendment will not affect the consolidated financial statements of PZU Group.

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

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

3.3 Explanation of differences between the statements published previously and the current condensed interim consolidated financial statements

3.3.1. Rearrangement of consolidated profit or loss account and consolidated cash flow statement

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

In the consolidated profit or loss account:

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

In the consolidated cash flow statement, operating activity has been presented using indirect method, rather than direct one applied before.

3.3.2. Changes to the presentation of joint co-insurance

In order to provide greater transparency of the presentation of the joint co-insurance transaction in the consolidated statement of financial standing and the consolidated profit or loss account, the amounts of the potential compensation payments falling in part to other co-insurers were disclosed as contingent liabilities, rather than as other assets and provisions as applied before, recognized in correspondence with other operating income and other operating expenses.

Data for comparable periods have been appropriately restated.

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

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

3.3.4. Settlement of the acquisition of shares of Alior Bank

In relation to the end of the final purchase prize allocation of Alior Bank acquisition, the retrospective restatement of data as at 31 December 2015 was made. Additional information concerning this settlement has been presented in Note 1.4.1.1

(in PLN thousand)

3.3.5. Effect of the amendments on the interim condensed consolidated financial statement

Assets	1 January–1 December 2015 *(approved)*	Adjustment	1 January–1 December 2015 *(restated)*
Goodwill	1,506,445	25,236[1)]	1,531,681
Deferred tax assets	349,189	20,256[1)]	369,445
Financial assets - loans	43,403,051	(77,264) [1)]	43,325,787
Total assets	**105,429,009**	**(31,772)[1)]**	**105,397,237**

Equity and liabilities	1 December 2015 *(approved)*	Adjustment	1 December 2015 *(restated)*
Non-controlling interest	2,255,188	(61,120) [1)]	2,194,068
Total equity	**15,178,907**	**(61,120)**	**15,117,787**
Financial liabilities	44,487,823	206,626 [2)]	44,694,449
Other liabilities	3,678,011	29,348 [1)] (206,626) [2)]	3,500,733
Total liabilities	**90,250,102**	**29,348**	**90,279,450**
Total equity and liabilities	**105,429,009**	**(31,772)**	**105,397,237**

Selected items of the consolidated profit or loss account	1 January–30 June 2015 *(historical)*	Adjustment	1 January–30 June 2015 *(restated)*
Net investment income	805,595	39,726 [3)]	845,321
Net change in the fair value of assets and liabilities measured at fair value	69,219	(11,509) [3)]	57,710
Other operating income	369,462	(23,471) [4)]	345,991
Interest expense	-	(61,876) [3)]	(61,876)
Change in measurement of investment contracts	(15,632)	15,632 [3)]	item deleted
Other operating expenses	(662,451)	23,471 [4)]	(638,980)
Operating profit	**1,637,013**	**(18,027)**	**1,618,986**
Borrowing costs	(18,027)	18,027 [3)]	item deleted
Profit before tax	**1,618,954**	**-**	**1,618,954**

1) change described in 3.3.4 and 1.4.1.1.
2) change described in 3.3.3.
3) change described in 3.3.1.
4) change described in 3.3.2.

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4. Key estimates and judgements

Key estimates and judgments were presented in the consolidated financial statements of PZU Group for 2015.

5. Adjustments of prior period errors

In the period of 6 months between 1 January and 30 June 2016, no adjustments of the prior period errors were made.

6. Significant events which would considerably change the structure of the items presented in financial statements

6.1 2015 PZU profit appropriation

On 30 June 2016, the General Meeting of Shareholders of PZU adopted a resolution on the appropriation of net profit for 2015. This aspect was described in point 14.

6.2 The key dividends paid between the companies of PZU Group

6.2.1. Dividend from PZU Życie to PZU

On 30 June 2016, the General Meeting of Shareholders of PZU Życie adopted a resolution on the appropriation of profit of PZU Życie for the financial year of 2015 in the amount of PLN 1,677,124 thousand in the following way:

- allocation of PLN 1,450,000 thousand to a dividend for the only shareholder, i.e. PZU;
- allocation of PLN 222,124 thousand to the supplementary capital;
- allocation of PLN 5,000 thousand to the Company's Social Benefits Fund.

Given the advance payment made on 31 December 2015 towards the dividend expected at the end of 2015 in the amount of PLN 625,000 thousand, the remaining part of the dividend payable amounts to PLN 825,000 thousand. The dividend date for this part was set for the day on which the General Meeting of Shareholders of PZU Życie took place, and the date of the payment was set on 19 October 2016.

6.2.2. Dividend from PTE PZU to PZU Życie

On 22 April 2016, the General Meeting of Shareholders of PTE PZU adopted a decision on the dividend payment in the amount of PLN 66,109 thousand. The dividend was paid on 6 June 2016.

6.2.3. Dividend from TFI PZU to PZU

On 28 June 2016, the General Meeting of Shareholders of TFI PZU adopted a decision on the dividend payment in the amount of PLN 18,671 thousand. The dividend was paid on 15 July 2016.

(in PLN thousand)

7. Additional notes to the interim consolidated financial statements

7.1 Gross written premiums

Gross written premiums	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Gross written premiums in non-life insurance	3,048,225	5,893,128	2,409,668	5,073,799
In direct insurance	3,037,396	5,876,313	2,388,643	5,041,578
In indirect insurance	10,829	16,815	21,025	32,221
Gross written premiums in life insurance	2,013,158	3,968,859	2,035,955	4,052,651
Individual premiums	801,312	1,551,773	844,567	1,682,452
Group insurance premiums	1,211,846	2,417,086	1,191,388	2,370,199
Total gross written premiums	**5,061,383**	**9,861,987**	**4,445,623**	**9,126,450**

Gross written premiums in direct non-life insurance (by classes specified in section II of the appendix to the Act on insurance Activity)	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Accident and sickness insurance (group 1 and 2)	133,553	273,580	124,425	283,563
MTPL insurance (group 10)	1,134,770	2,059,319	830,888	1,614,403
Motor own damage insurance (group 3)	820,407	1,572,897	657,113	1,296,289
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	17,270	54,692	18,945	37,449
Insurance against fire and other damage to property (groups 8, 9)	611,599	1,262,302	478,137	1,205,336
TPL insurance (groups 11, 12, 13)	175,118	386,584	159,283	382,580
Credit insurance and suretyship (groups 14, 15)	17,402	33,807	20,807	39,215
Assistance (group 18)	96,345	181,988	83,985	155,286
Legal protection (group 17)	1,575	3,438	411	758
Other (group 16)	29,357	47,706	14,649	26,699
Total	**3,037,396**	**5,876,313**	**2,388,643**	**5,041,578**

(in PLN thousand)

7.2 Revenue from commissions and fees

Revenue from commissions and fees	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015	1 January–30 June 2015
Banking activity	137,137	275,100	-	-
Brokerage commissions	12,972	30,429	-	-
Handling payment and credit cards	24,672	49,155	-	-
Remunerations for insurance policy sale intermediation	28,621	49,959	-	-
Credits and loans	14,235	27,872	-	-
Handling bank accounts	26,311	51,673	-	-
Bank transfers	9,376	18,274	-	-
Cash operations	5,868	10,938	-	-
Purchased receivables	2,145	4,068	-	-
Bonds, letters of credit, collections, promissory notes	3,578	7,213	-	-
Other commissions	9,359	25,519	-	-
Pension insurance	32,449	56,383	30,395	56,750
Commission on handling fees	1,360	2,716	1,267	2,615
Asset management fee for open pension fund	22,991	45,569	26,132	51,139
Other	8,098	8,098	2,996	2,996
Fees from unit-linked investment contract	1,773	3,202	2,503	4,918
Revenue and payments received from funds and investment fund management companies	34,428	56,026	21,854	41,528
Other commissions	291	291	-	-
Total revenue from commissions and fees	**206,078**	**391,002**	**54,752**	**103,196**

(in PLN thousand)

7.3 Net investment income

Net investment income	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015	1 January–30 June 2015
Interest income, including:	933,352	1,830,437	369,016	697,175
Bank loans	563,127	1,098,654	-	-
Available-for-sale financial instruments	42,859	77,821	10,313	31,507
Financial assets held to maturity	204,587	404,469	249,306	482,141
Loans	77,458	156,835	108,517	181,664
Purchased receivables	5,880	11,889	-	-
Hedging derivatives	29,751	64,519	-	-
Receivables, including insurance receivables	3,971	5,927	38	413
Cash and cash equivalents	5,719	10,323	842	1,450
Dividend income, including:	35,783	36,941	38,016	38,415
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition	24,688	24,914	22,769	23,073
Financial assets held for trading	10,478	10,478	14,447	14,484
Available-for-sale financial instruments	617	1,549	800	858
Income from investment property	61,065	116,815	51,232	100,103
Exchange differences, including:	(4,787)	(5,669)	(23,846)	85,912
Financial assets held to maturity	2,670	2,787	1,792	(1,154)
Available-for-sale financial instruments	13,582	7,898	13,617	2,831
Loans	22,492	17,001	(768)	5,339
Settlements, including insurance settlements	31,902	7,780	11,385	1,877
Cash and cash equivalents	13,392	2,526	2,107	37,293
Financial liabilities	(127,705)	(139,096)	(52,707)	33,789
Other	(48,454)	95,435	728	5,937
Other, including:	(46,350)	(75,209)	(35,647)	(76,284)
Costs of investment activities	(4,908)	(13,414)	(8,206)	(15,893)
Investment property maintenance costs	(31,915)	(59,061)	(34,336)	(73,862)
Other	(9,527)	(2,734)	6,895	13,471
Total net investment income	**988,637**	**1,903,315**	**398,771**	**845,321**

(in PLN thousand)

7.4 Net result on realization and imapirment losses on investments

Net result on realization and impairment losses on investments	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Net result on realization of investments	**(154,239)**	**(65,812)**	**75,551**	**208,448**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	(1,904)	(21,736)	24,711	77,343
Equity instruments	37,146,	(34,829)	29,405	1,179
Debt instruments	(39,050)	13,093	(4,694)	76,164
Financial assets held for trading, including:	(179,530)	(117,621)	84,671	156,963
Equity instruments	2,045	(39,379)	6,666	26,498
Debt instruments	1,277	32,467	(12,646)	(7,489)
Derivative instruments	(182,852)	(110,709)	90,651	137,954
Financial assets available for sale, including:	13,271	63,081	(17,353)	8
Equity instruments	93	113	8	33
Debt instruments	13,178	62,968	(17,361)	(25)
Financial assets held to maturity, including:	-	-	(945)	(1,003)
Financial assets held to maturity	-	-	(945)	(1,003)
Loans	18,461	19,826	161	185
Receivables, including insurance receivables	(13,009)	(19,171)	(13,987)	(25,795)
Cash and cash equivalents	-	-	23	(51)
Investment property	8,223	9,311	(1,730)	798
Other	249	498	-	-
Impairment losses	**(225,468)**	**(404,637)**	**(10,393)**	**(25,506)**
Financial assets available for sale, including:	-	(6,975)	-	-
Debt instruments	-	(6,975)	-	-
Loans	(190,340)	(350,816)	(6,104)	(7,039)
Debt securities	(22,561)	(22,561)	(6,083)	(6,083)
Loan receivables from clients	(167,779)	(328,255)	-	-
Term deposits with credit institutions	-	-	(21)	(956)
Receivables, including insurance receivables	(27,080)	(38,798)	(4,265)	(17,079)
Cash and cash equivalents	-	-	(24)	(1,388)
Acquired SKOKs' goodwill	(8,048)	(8,048)	-	-
Net result on realization and impairment losses on investments	**(379,707)**	**(470,449)**	**65,158**	**182,942**

(in PLN thousand)

7.5 Net change in the fair value of assets and liabilities measures at fair value

Net change in the fair value of assets and liabilities measured at fair value	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	(176,899)	(38,252)	(210,627)	17,638
Equity instruments	(281,310)	(213,043)	(61,417)	141,256
Debt instruments	100,244	178,126	(171,215)	(110,106)
Valuation of liabilities to participants of consolidated investment fund	(651)	(6,863)	15,118	(2,003)
Unit-linked investment contracts	4,818	3,528	6,887	(11,509)
Financial instruments held for trading, including:	(36,960)	(12,920)	(199,534)	39,890
Equity instruments	(118,237)	(95,121)	(94,702)	80,405
Debt instruments	107,867	134,993	(9,073)	6,527
Derivative instruments	(26,590)	(52,792)	(95,759)	(47,042)
Investment property	76,592	72,693	7,863	182
Other	1,687	1,687	-	-
Total net change in the fair value of assets and liabilities measured at fair value	**(135,580)**	**23,208**	**(402,298)**	**57,710**

7.6 Other operating income

Other operating income	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Revenue from managing third party assets	3,691	6,687	-	-
Commission on claims representative services	1,833	3,843	1,675	3,751
Release of provisions	6,367	9,731	1,786	2,176
Released impairment losses on non-financial assets	-	4,676	-	-
Reinsurers' commissions and share in reinsurers' profit	3,426	16,007	6,672	12,536
Revenues from sale of products, goods, and services by non-insurance companies	113,154	205,672	114,630	196,719
Revenues from direct claims handling regarding policies concluded on behalf of other insurance companies	53,403	106,711	48,016	80,550
Interest from overdue receivables in direct insurance and outward reinsurance	4,899	13,302	12,710	25,688
Other	24,958	49,185	17,233	24,571
Total other operating income	**211,731**	**415,814**	**202,722**	**345,991**

(in PLN thousand)

7.7 Insurance claims and change in technical provision

Insurance claims and change in technical provisions	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Claims, benefits and change in technical provisions in non-life insurance	1,714,940	3,314,414	1,576,492	2,898,856
Reinsurers' share in claims, benefits and change in technical provisions – non-life insurance	(36,247)	(66,051)	(16,724)	(78,366)
Claims, benefits and change in technical provisions in life insurance	1,419,181	2,916,162	1,400,828	3,185,999
Reinsurers' share in claims, benefits and change in technical provisions – life insurance	(66)	(89)	(93)	(128)
Total claims, benefits and change in technical provisions	**3,097,808**	**6,164,436**	**2,960,503**	**6,006,361**

7.8 Costs of commissions and fees

Costs of commissions and fees	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Brokerage commissions	824	1,512	-	-
Costs of card and ATM transactions, including costs of the cards issued	17,809	32,865	-	-
Bank products insurance	6,379	12,294	-	-
Commissions for providing ATMs	5,092	10,351	-	-
Commissions for agreements on performing certain actions	2,953	5,212	-	-
Costs of compensations and bonuses for bank clients	6,269	11,412	-	-
Commissions paid to agents in banking activity	7,787	12,574	-	-
Assistance services for bank clients	728	2,007	-	-
Costs of gaining bank clients	1,768	3,965	-	-
Other commissions	25,498	34,421	-	-
Total costs of commissions and fees	**75,107**	**126,613**	**-**	**-**

(in PLN thousand)

7.9 Interest expense

Interest expense	**1 April– 30 June 2016**	**1 January– 30 June 2016**	**1 April– 30 June 2015**	**1 January– 30 June 2015**
Term deposits	106,421	213,085	-	-
Current deposits	8,391	16,012	-	-
Hedging derivatives	23,399	52,385	-	-
Sell-buy-back transactions	11,291	22,347	17,588	39,277
Own debt instruments issued	43,136	84,878	8,037	16,011
Bank loans contracted by PZU Group companies	1,083	2,081	439	2,435
Investment contracts with guaranteed and fixed terms and conditions	949	1,484	408	4,123
Other	2,514	4,539	(23)	30
Total interest expense	**197,184**	**396,811**	**26,449**	**61,876**

7.10 Administrative expenses, acquisition costs, and claim handling expenses, by type

Administrative expenses, acquisition costs, and claims handling expenses, by type	**1 April– 30 June 2016**	**1 January– 30 June 2016**	**1 April– 30 June 2015**	**1 January– 30 June 2015**
Consumption of materials and energy	44,431	95,863	21,363	54,775
External services	163,173	321,250	181,258	340,711
Taxes and charges	15,503	30,219	14,637	32,884
Employee expenses	586,903	1,150,956	429,271	809,330
Depreciation of property, plant and equipment	35,367	72,962	21,544	40,757
Amortization of intangible assets	36,704	75,334	24,556	46,824
Other, including:	636,067	1,289,727	626,154	1,203,320
- commissions from direct activity	480,195	977,724	464,994	910,416
- advertisement	45,019	68,320	42,728	66,387
- remuneration of people handling group insurance with companies	(2,867)	50,407	52,645	105,803
- other	113,720	193,276	65,787	120,714
Change in deferred acquisition expenses	(36,978)	(105,471)	(134,336)	(185,320)
Total administrative expenses, acquisition costs, and claims handling expenses	**1,481,170**	**2,930,840**	**1,184,447**	**2,343,281**

(in PLN thousand)

7.11 Other operating expenses

Other operating expenses	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015	1 January–30 June 2015
Amortization of intangible assets acquired in company takeover transactions	21,861	44,532	47,096	106,675
Costs from direct claims handling regarding claims on policies concluded on behalf of other insurance companies	54,484	110,519	49,270	83,251
Creation of provisions	3,306	12,091	4,871	8,988
Impairment of non-financial assets	56,642	63,994	778	813
Costs of core business of companies carrying out neither insurance nor banking activity	131,532	245,901	92,500	197,192
Expenses due to prevention activities	25,800	46,731	17,033	42,971
Compulsory payments to the insurance market and bank authorities	18,179	40,614	17,026	36,028
IT expenses	11,696	24,773	141	169
Insurance Guarantee Fund	13,435	27,880	10,373	20,019
Bank Guarantee Fund	18,394	37,302	-	-
National Headquarters of the State Fire Service and Volunteer Fire Service Association consideration	1,746	22,406	2,784	24,728
Financial institutions tax	102,994	170,311	-	-
Other	125,064	157,854	70,442	118,146
Total other operating expenses	**585,133**	**1,004,908**	**312,314**	**638,980**

7.12 Earnings per share

Earnings per share	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015	1 January–30 June 2015
Net profit attributable to the owners of the parent entity	166,171	659,540	380,261	1,321,593
Basic and diluted weighted average number of ordinary shares in issue	863,473,794	863,473,794	863,519,490 [1)]	863,519,490 [1)]
Number of shares issued	863,523,000,	863,523,000,	863,523,000 [1)]	863,523,000 [1)]
Number of own shares (held by the subsidiaries of PZU)	(49,206)	(49,206)	(3,510) [1)]	(3,510) [1)]
Basic and diluted profit (loss) per ordinary share (in PLN)	0.19	0.76	0.44	1.53

[1)] Compared data was transformed, taking into consideration the new number of shares after the split of PZU shares.

In the period of 6 months ended on 30 June 2016, no transactions or events that would result in the dilution of profit per one share occurred.

7.13 Income tax

Total current and deferred tax	1 April–30 June 2016	1 January–30 June 2016	1 April–30 June 2015	1 January–30 June 2015
Recognized in profit or loss account	(102,298)	(259,076)	(84,562)	(297,427)
- current portion	(210,265)	(270,014)	(116,309)	(374,234)
- deferred tax	107,967	10,938	31,747	76,807
Recognized in other comprehensive income (deferred tax)	12,279	14,464	11,386	6,181
Total other net comprehensive income	**(90,019)**	**(244,612)**	**(73,176)**	**(291,246)**

(in PLN thousand)

Income tax relating to components of other comprehensive income	1 April– 30 June 2016	1 January– 30 June 2016	1 April– 30 June 2015	1 January– 30 June 2015
Other comprehensive income before tax	(30,265)	(41,816)	(32,020)	(51,238)
Income tax	12,279	14,464	11,386	6,181
Measurement of available-for-sale financial instruments and transactions hedging cash flows	12,261	14,464	12,356	7,222
Property reclassified from property, plant and equipment to investment property	18	-	(970)	(1,041)
Other comprehensive income, net	**(17,986)**	**(27,352)**	**(20,634)**	**(45,057)**

7.14 Goodwill

Goodwill	30 June 2016	31 December 2015 *(restated)*
Alior Bank	745,805	745,805
Lietuvos Draudimas AB	372,568	358,766
Mass insurance segment in non-life insurance (Link4)	221,377	221,377
Lietuvos Draudimas AB branch in Estonia	116,625	112,303
AAS Balta	39,722	38,251
Health care companies	51,497	49,633
Other	5,546	5,546
Total goodwill	**1,553,140**	**1,531,681**

In the period of 6 months ended on 30 June 2016, no evidence justyfing the performance of impairment loss tests was identified. Consequentially, in the given period, as well as in 2015, there were no impairment losses concerning goodwill.

7.15 Other assets

Other assets	30 June 2016	31 December 2015
Reinsurance settlements	292,429	339,463
IT expenses	32,245	31,581
Accrued receivables from direct claims handling	43,150	41,582
Inventories	132,548	125,260
Other assets	253,484 [1)]	161,078
Total other assets	**753,856**	**698,964**

[1)] including PLN 62,065 thousand of estimated subsidy from BFG related to the acquisition of SKOK by Alior Bank, described in point 1.4.1.3.

7.16 Reinsurers’ share in technical provisions

Reinsurers’ share in technical provisions	30 June 2016	31 December 2015
Unearned premiums reserve	312,857	339,255
Provisions for claims outstanding, including:	523,932	579,173
- for claims reported	484,630	527,773
- for claims incurred but not reported (IBNR)	19,146	28,973
- for claims handling expenses	20,156	22,427
Provisions for the capitalized value of annuities	174,572	178,424
Total reinsurers’ share in technical provisions	**1,011,361**	**1,096,852**

(in PLN thousand)

7.17 Entities measured using equity model

Associates and joint ventures	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górniczy Klub Ubezpieczonych SA	
Nature of the relationship between PZU and the entity	Associate – non-strategic		Associate – non-strategic	
Seat of the entity	Wrocław		Tychy	
Share in the entity's capital	28.31%	28.31%	30.00%	30.00%
Share in the entity's votes	25.44%	25.44%	30.00%	30.00%
Valuation method in consolidated financial statements	Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS	
Carrying amount of the involvement in the entity	52,515	53,479	579	575
Fair value of the interest in the entity	45,092	55,283	None – unlisted entity	
Dividends received from the entity	-	-	-	8
Basic financial information				
Assets, including:	243,632	252,378	3,160	2,882
Short-term assets, including:	43,801	54,529	2,770	2,424
Cash and cash equivalents	8,924	16,350	2,595	2,397
Long-term assets	199,831	197,849	390	458
Equity	149,564	152,873	1,928	1,915
Liabilities, including:	94,068	99,505	1,232	967
Short-term liabilities, including:	49,253	56,497	1,232	967
Short-term financial liabilities	14,083	21,934	-	-
Long-term liabilities, including:	44,815	43,008	-	-
Long-term financial liabilities	27,181	19,760	-	-
Revenue from core operations	134,471	258,070	838	2,056
Depreciation and amortization	6,871	13,141	68	154
Interest income	22	280	40	76
Interest expense	911	1,969	-	-
Income tax	414	551	16	21
Total net comprehensive income, including:	(3,310)	(4,337)	14	(18)
Profit/loss, including:	(3,363)	(4,498)	14	(18)
Profit (loss) from continued operations	(3,363)	(4,498)	14	(18)
Profit (loss) from discontinued operations	-	-	-	-
Other comprehensive income	53	161	-	-

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

7.18 Financial assets

In the period of 6 months ended on 30 June 2016, no reclassification of financial assets between groups carried at fair value and groups carried at cost or amortized cost was done.

On 1 January 2015, due to a change in the purpose of use of the assets, certain assets that used to be recognized as assets available for sale were reclassified to assets held to maturity. The carrying value of assets at the time of the reclassification amounted to PLN 83,620 thousand. Carrying amount as at 30 June 2016 amounted to PLN 82,392 thousand.

The reclassification described above was the only reclassification of this type performed in 2015.

(in PLN thousand)

7.18.1. Financial instruments held to maturity

Financial instruments held to maturity	30 June 2016	31 December 2015
Instruments for which fair value may be determined	**17,281,793**	**17,370,126**
Debt instruments	17,281,793	17,370,126
Government securities	17,055,618	17,150,858
Fixed rate	15,820,170	15,919,711
Floating rate	1,235,448	1,231,147
Other	226,175	219,268
Listed on a regulated market	100,601	96,481
Fixed rate	100,601	96,481
Not listed on a regulated market	125,574	122,787
Floating rate	125,574	122,787
Total financial instruments held to maturity	**17,281,793**	**17,370,126**

7.18.2. Financial instruments available for sale

Financial instruments available for sale	30 June 2016	31 December 2015
Instruments for which fair value may be determined	**11,027,641**	**7,727,973**
Equity instruments	490,196	582,223
Listed on a regulated market	141,644	195,689
Not listed on a regulated market	348,552	386,534
Debt instruments	10,537,445	7,145,750
Government securities	7,558,772	6,317,916
Fixed rate	5,259,148	4,659,631
Floating rate	2,299,624	1,658,285
Other	2,978,673	827,834
Listed on a regulated market	284,603	245,863
Fixed rate	239,340	202,684
Floating rate	45,263	43,179
Not listed on a regulated market	2,694,070	581,971
Fixed rate	2,100,000 [1)]	-
Floating rate	594,070	581,971
Instruments for which fair value cannot be determined	**19,386**	**16,716**
Equity instruments	19,386	16,716
Not listed on a regulated market	19,386	16,716
Total financial instruments available for sale	**11,047,027**	**7,744,689**

[1)] Total balance concerns money bills issued by the National Bank of Poland.

(in PLN thousand)

7.18.3. Financial instruments measured at fair value through profit and loss

Financial instruments measured at fair value through profit or loss	30 June 2016	31 December 2015
Instruments classified as such upon initial recognition	**12,915,806**	**13,245,460**
Equity instruments	2,530,128	2,384,554
Listed on a regulated market	2,384,067	2,274,062
Not listed on a regulated market	146,061	110,492
Debt instruments	10,385,678	10,860,906
Government securities	10,290,332	10,630,780
Fixed rate	8,675,705	9,047,572
Floating rate	1,614,627	1,583,208
Other	95,346	230,126
Listed on a regulated market	95,346	230,126
Fixed rate	95,346	230,126
Instruments held for trading	**7,863,131**	**7,402,943**
Equity instruments	3,753,012	4,077,204
Listed on a regulated market	954,067	1,052,849
Not listed on a regulated market	2,798,945	3,024,355
Debt instruments	3,188,172	2,352,363
Government securities	3,114,800	2,278,369
Fixed rate	2,908,501	2,228,895
Floating rate	206,299	49,474
Other	73,372	73,994
Listed on a regulated market	223	311
Floating rate	223	311
Not listed on a regulated market	73,149	73,683
Floating rate	73,149	73,683
Derivative instruments	921,947	973,376
Total financial instruments measured at fair value through profit or loss	**20,778,937**	**20,648,403**

7.18.4. Loans

Loans	30 June 2016	31 December 2015 *(restated)*
Debt instruments	**2,772,806**	**2,730,607**
Government securities	5,898	6,801
Fixed rate	5,898	6,801
Other	2,766,908	2,723,806
Not listed on a regulated market	2,766,908	2,723,806
Floating rate	2,766,908	2,723,806
Other, including:	**41,975,394**	**40,595,180**
Loan receivables from clients	33,526,194	30,254,351
Buy-sell-back transactions	2,002,437	3,132,740
Term deposits with credit institutions	4,779,402[1)]	5,279,044
Loans	1,667,361[2)]	1,929,045
Total loans and receivables	**44,748,200**	**43,325,787**

[1)] Over 59% of term deposits at credit institutions are the deposits in PLN, while 37% are the deposits in EUR. For over 95% of the deposits the maturity date falls before 31 December 2016.

[2)] 100% of loans and receivables are loans with collaterals such as pledges on shares, sureties, guarantees, or material collaterals.

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

(in PLN thousand)

Loan receivables from clients	30 June 2016	31 December 2015 (restated)
Retail segment	**18,756,136**	**16,923,391**
Operating credits	165,482	167,635
Consumer credits	9,327,786	8,570,665
Consumer Finance credits	922,964	709,980
Credits to acquire securities	123,364	116,655
Credit card credit	237,258	225,588
House purchase credits	7,171,272	6,232,117
Other mortgage loans	786,614	872,332
Other receivables	21,396	28,419
Business segment	**14,770,058**	**13,330,960**
Operating credits	7,884,574	7,407,498
Car loans	51,471	69,870
Investment credits	6,079,939	5,454,753
Purchased receivables (factoring)	533,620	376,403
Other receivables	220,454	22,436
Total loan receivables from clients	**33,526,194**	**30,254,351**

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

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

Debt instruments issued by treasuries other than the Polish Treasury

As at 30 June 2016	Currency	Valuation method	Acquisition price	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	179,933	192,566	192,566	-
	EUR	at amortized cost	28,525	29,062	29,337	-
Croatia	EUR	at amortized cost	30,334	31,012	31,308	-
	USD	at fair value	6,092	8,916	8,916	-
Czech Republic	CZK	at fair value	89,315	91,741	91,741	-
Spain	EUR	at fair value	69,075	77,805	77,805	-
Irland	EUR	at fair value	6,878	7,162	7,162	-
	EUR	at amortized cost	7,719	7,633	8,149	-
Lithuania	EUR	at fair value	324,427	351,647	351,647	-
	EUR	at amortized cost	136,403	140,475	146,094	-
	USD	at fair value	4,849	7,069	7,069	-
Latvia	EUR	at fair value	52,658	59,059	59,059	-
	EUR	at amortized cost	19,024	19,822	20,163	-
	USD	at fair value	31,236	41,468	41,468	-
Germany	EUR	at fair value	209,515	215,682	215,682	-
Romania	EUR	at fair value	55,903	65,842	65,842	-
	EUR	at amortized cost	35,164	35,945	36,533	-
	RON	at fair value	56,370	58,074	58,074	-
	USD	at fair value	15,631	23,143	23,143	-
Sri Lanka	USD	at fair value	24,775	24,860	24,860	-
Turkey	USD	at fair value	133,994	138,624	138,624	-
	EUR	at fair value	1,087	1,136	1,136	-
	TRY	at fair value	162,406	164,608	164,608	-

(in PLN thousand)

Ukraine	UAH	at fair value	13,799 [1)]	12,042 [1)]	12,042 [1)]	-
	UAH	at amortized cost	24,179 [1)]	24,266 [1)]	24,146 [1)]	-
	USD	at fair value	6,304	6,512	6,512	-
	USD	at amortized cost	14,766	16,020	16,023	-
Hungary	EUR	at fair value	123,000	127,545	127,545	-
	EUR	at amortized cost	30,980	31,290	32,108	-
	HUF	at fair value	84,451	87,569	87,569	-
	USD	at fair value	7,801	11,748	11,748	-
other	EUR/USD/GBP	at fair value	590,865	624,207	624,207	-
	EUR	at amortized cost	8,157	8,259	8,412	-
Total			2,585,615	2,742,809	2,751,298	-

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

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

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

(in PLN thousand)

7.18.6. Debt instruments issued by companies and local goverment authorities

As at 30 June 2016	Valuation method	Acquisition price	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	170,135	184,742	184,742	-
	at amortized cost	1,518,434	1,532,657	1,543,880	-
WIG index companies – Fuels	at fair value	377,686	391,573	391,573	-
	at amortized cost	700,000	700,629	705,038	-
WIG index companies – Chemical index	at amortized cost	5,838	6,084	6,091	-
WIG index companies – Energy	at amortized cost	315,000	316,292	314,775	-
Domestic banks not listed	at amortized cost	20,000	20,244	23,042	-
Mortgage banks	at fair value	41,983	45,263	45,263	-
Foreign banks	at fair value	3,572	3,519	3,519	-
	at amortized cost	71,985	76,931	79,078	1,142
Local governments	at fair value	45,632	56,555	56,555	-
	at amortized cost	50,000	50,858	56,328	-
WIG index companies – Raw materials	at fair value	64,800	64,157	64,157	-
	at amortized cost	240,992	194,684	189,061	65,398
Other	at fair value	331,829	301,582	301,582	18,287
	at amortized cost	92,932	94,704	95,475	-
National Bank of Poland	at fair value	2,099,387	2,100,000	2,100,000	-
Total		**6,150,205**	**6,140,474**	**6,160,159**	**84,827**

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

(in PLN thousand)

7.18.7. Derivative instruments

Derivative instruments – assets	30 June 2016	31 December 2015
Interest rate derivatives	**799,096**	**891,266**
Instruments presented as transactions hedging cash flows – OTC, including:	53,661	139,578
- SWAP transactions	53,661	139,578
Instruments presented as held for trading, including:	745,435	751,688
OTC instruments, including:	745,435	751,688
- futures	18,278	22,168
- SWAP transactions	713,288	725,722
- call options	9,685	3,798
- cap floor options	4,184	-
Derivative instruments related to currency exchange rates – presented as held for trading	**158,874**	**170,129**
OTC instruments, including:	158,874	170,129
- futures	60,971	54,620
- SWAP transactions	87,861	106,385
- call options	10,042	9,124
Derivative instruments related to prices of securities and goods – presented as held for trading	**17,638**	**51,559**
Listed instruments, including:	-	131
- put options	-	131
OTC instruments, including:	17,638	51,428
- call options	17,638	51,428
Derivative instruments – total assets	**975,608**	**1,112,954**

Derivative instruments – liabilities	30 June 2016	31 December 2015
Interest rate derivatives	**807,788**	**846,515**
Instruments presented as held for trading, including:	807,788	846,515
Listed instruments, including:	16,462	20,362
- futures	16,462	20,362
OTC instruments, including:	791,326	826,153
- futures	17,002	19,905
- SWAP transactions	760,449	802,450
- put options	9,683	3,798
- cap floor options	4,192	-
Derivative instruments related to currency exchange rates – presented as held for trading	**119,600**	**63,213**
OTC instruments, including:	119,600	63,213
- futures	14,702	7,747
- SWAP transactions	94,794	46,339
- put options	10,104	9,127
Derivative instruments related to prices of securities and goods – presented as held for trading	**-**	**30,756**
OTC instruments, including:	-	30,756
- put options	-	30,756
Derivative instruments – total liabilities	**927,388**	**940,484**

7.18.8. Information concerning changes in the economic situation and conditions for carrying out business, which have a relevant impact on the fair value of assets and financial liabilities

7.18.8.1. Capital market

The situation on the stock exchange market in the first weeks of 2016 was very difficult. While the Polish indices looked quite positively on the European background, yet WIG and WIG20 dropped by approximately 5%. The drops on the Polish stock market resulted mainly from the situation on the global markets. This downward trend was overcome in January, and the indices were raising until early April. Besides global factors, the share prices were supported in this period by the very good economic growth rate publication for the fourth quarter of 2015.

However, with the beginning of April the declines returned. These were caused by a surprisingly low reading of GDP dynamics in the first quarter of 2016 and growing probability of Fed increasing the interest rates in the middle of 2016. In Poland, the weakened valuation of big companies related to market and regulatory risks was particularly visible. This phenomenon concerned mainly banks, shopping chains, or raw material and energy companies. By the end of May 2016, WIG and WIG20 dropped below their level from the end of 2015.

In the last weeks of the first half of 2016, financial markets, especially in Europe, experienced the influence of the potential voting of the citizens of the United Kingdom concerning its exit from the European Union – the so-called Brexit. Stock prices were dropping, and market volatility was very high. Brexit shook up the stock markets, but some exchange losses were made up by the end of June. Ultimately, the WIG index dropped by 3.7% and the WIG20 index dropped by 5.8% between the end of December 2015 and the end of June of the current year.

7.18.8.2. Interest rates and inflation

By analyzing the first half of 2016 one may notice that the increased risk aversion on the global markets impacted the high volatility of Polish treasury bonds yield. Polish yield curve flattened due to its short end moving upward, which was related to i.a. lowering the expectations concerning possible cuts in interest rates in Poland done by the Monetary Policy Council. We estimate that the risk premium for Poland shall remain at the highest level. The difference between the yields of Polish and German 10-year treasury bonds remained over 300 bps for almost all of June. It even temporarily exceeded 330 bps, which last happened in September 2012.

Following the referendum in the United Kingdom, the yields in Poland recorded an initial strong spike followed by a drop. Ultimately, Polish yield curve between the end of December 2015 and the end of June 2016 rose by 18 bps for 1-year treasury securities (to 1.66%), 2 bps for 2-year treasury bonds, and 1 bp for 5-year bonds. 10-year bonds saw a drop of 3 bps to 2.91%.

7.18.8.3. Foreign exchange rates

In the first half of 2016, USD weakened against EUR. EUR/USD exchange rate increased from approx. 1.09 to approx. 1.11 – i.e. by approximately 2.3%. PLN was dropping against main world currencies. USD/PLN exchange rate increased by 2% at the end of June 2016 in comparison with the end of 2015. CHF/PLN and EUR/PLN exchange rates have increased during the analyzed period by 3.3% and 3.8%, respectively. The currency which substantially depreciated was GBP, a consequence of Brexit.

7.18.9. Amendments to the classification of assets resulting from a change in purpose or use of these assets

Information concerning the amendments to the classification of financial assets is presented in point 7.18.

7.19 Fair value

7.19.1. Description of valuation techniques

7.19.1.1. Debt instruments

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

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

7.19.1.2. Equity assets

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

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

7.19.1.3. Derivative instruments

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

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

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

7.19.1.4. Loan receivables from clients

Fair value of receivable from clients (excluding overdrafts) is determined by comparing the margins generated by newly granted credits (in the month preceding the data of preparation of consolidated financial statements) with the margins from entire credit portfolio. When the margins from newly granted credits are higher than the ones generated by the current portfolio, the fair value of the credit portfolio is lower than its carrying amount.

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

7.19.1.5. Financial liabilities

Liabilities to clients

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

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

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

Liabilities due to unit-linked investment contracts

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

Liabilities to participants of consolidated investment funds

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

7.19.2. Fair value hierarchy

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

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

(in PLN thousand)

- investment fund units;
- liabilities to participants of consolidated investment funds;
- unit-linked investment contracts.

- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). The level includes:
  - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector), measured with the models based on the discounted cash flows;
  - loan receivables from clients and liabilities to clients from deposits;
  - options embedded in deposit certificates issued by Alior Bank and options concluded on the interbank market to hedge embedded options positions.

In a situation where input data classified into different levels of fair value hierarchy is used for measurement of asset or liability elements, the measured component is attributed to the lowest level, from which the input data originate, which have a significant impact on the overall measurement.

The valuation of the non-liquid bonds and loans within Level III is substantially influenced by historical spreads observed on the bonds of all series issued by the same issuer and with characteristics similar to the one of the valuated series and on the loans of the same debtor or debtor within the same segment as the one of the valuated loan. These spreads are observed on the date of the issue of the new bond series, dates of the conclusion of the new loan agreements and dates of the market transactions whose subjects are the receivables arising from mentioned bonds and loans. The increases in the observed historical spreads result in a drop in fair value, while the drop in spreads results in higher valuation.

Assets and liabilities measured at fair value as at 30 June 2016	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	7,654,872	2,660,030	712,739	11,027,641
Equity instruments	141,644	348,552	-	490,196
Debt instruments	7,513,228	2,311,478	712,739	10,537,445
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	12,027,183	803,540	85,083	12,915,806
Equity instruments	2,385,714	87,608	56,806	2,530,128
Debt instruments	9,641,469	715,932	28,277	10,385,678
Financial instruments measured at fair value through profit or loss – held for trading	2,361,787	5,372,112	129,232	7,863,131
Equity instruments	955,655	2,797,357	-	3,753,012
Debt instruments	1,394,891	1,691,372	101,909	3,188,172
Derivative instruments	11,241	883,383	27,323	921,947
Hedging derivatives	-	53,661	-	53,661
Liabilities				
Derivative instruments	26,622	891,083	9,683	927,388
Liabilities to participants of consolidated investment funds	-	715,530	-	715,530
Unit-linked investment contracts	-	345,557	-	345,557

(in PLN thousand)

Assets and liabilities measured at fair value as at 31 December 2015 (restated data) [1]	Level I	Level II	Level III	Total
Assets				
Available-for-sale financial instruments	6,687,993	386,534	653,446	7,727,973
Equity instruments	195,689	386,534	-	582,223
Debt instruments	6,492,304	-	653,446	7,145,750
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	13,107,367	84,228	53,865	13,245,460
Equity instruments	2,274,757	84,228	25,569	2,384,554
Debt instruments	10,832,610	-	28,296	10,860,906
Financial instruments measured at fair value through profit or loss – held for trading	3,341,659	3,932,374	128,910	7,402,943
Equity instruments	1,053,043	3,024,161	-	4,077,204
Debt instruments	2,278,680	-	73,683	2,352,363
Derivative instruments	9,936	908,213	55,227	973,376
Hedging derivatives	-	139,578	-	139,578
Liabilities				
Derivative instruments	36,078	869,851	34,555	940,484
Liabilities to participants of consolidated investment funds	-	656,449	-	656,449
Unit-linked investment contracts	-	392,914	-	392,914

[1] Change specified in Point 7.19.4

Assets and liabilities whose fair value is disclosed as at 30 June 2016	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	45,092	-	-	45,092
Financial assets held to maturity	16,532,952	503,172	2,828,633	19,864,757
Loans				
Debt instruments	-	6,038	2,777,852	2,783,890
Loan receivables from clients	-	-	33,055,953	33,055,953
Loans	-	-	1,664,024	1,664,024
Liabilities				
Liabilities to banks	-	420,932	162,808	583,740
Liabilities to clients	-	-	37,919,249	37,919,249
Liabilities arising from the issue of own debt instruments	-	-	3,748,995	3,748,995
Subordinated liabilities (Alior Bank)	-	-	1,027,733	1,027,733

Assets and liabilities whose fair value is disclosed as at 31 December 2015 (restated data)[1]	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	55,283	-	-	55,283
Financial assets held to maturity	17,069,280	-	2,751,050	19,820,330
Loans				
Debt instruments	-	7,045	2,761,240	2,768,285
Loan receivables from clients	-	-	30,254,351	30,254,351
Loans	-	-	1,926,664	1,926,664
Liabilities				
Liabilities to banks	-	475,809	124,831	600,640
Liabilities to clients	-	-	33,665,013	33,665,013
Liabilities arising from the issue of own debt instruments	-	-	3,573,225	3,573,225
Subordinated liabilities (Alior Bank)	-	-	758,560	758,560

[1] Change specified in Point 7.19.4

7.19.3. Reclassifications between levels of fair value hierarchy

In the event of a change in the method of measuring assets or liabilities arising e.g. from losing (or gaining) the availability of quotations observed in an active market, such assets or liabilities are transferred between Levels I and II.

Elements of assets or liabilities are transferred between Levels II and III (respectively between Levels III and II) when:

- there is a change in the measurement model which results from the application of new unobservable (or, respectively, observable) factors, or
- the factors which had been used so far, the impact on the measurement of which is significant, cease to be (or, respectively, become) observable on the active market.

Transfers between levels of the fair value hierarchy are made at the end of each financial year, according to the value at that date.

As at 30 June 2016, a part of financial assets whose value as at the date of the transfer amounted to PLN 2,600,259 thousand was transferred from Level I to Level II. The information concerning the reasons behind the transfer is described in point 7.19.4.

In 2015, no significant transfers between Levels I and II (and, respectively, between Levels II and I) occurred.

7.19.4. Changes in fair value measurement of financial instruments measured at fair value

In order to provide more accurate and faithful determination of the fair value, since 30 June 2016, in the case of a part of the financial assets (mainly debt financial instruments listed on foreign markets), the fair value is determined based on the valuations published by an authorized information service, and not based on the quotations from the interbank market, as it used to be. The change of the measurement source allows for including in the fair value measurement the broader scope of information about transactions and offers from a large number of markets on which the given financial instrument is quoted, as the opposite of the fair value measurement based on the interbank market price.

As a result of the reassessment of the models applied to determine the fair value with the use of the discounted cash flows, PZU Group decided to qualify the instruments measured with these models to Level III of the fair value, and not to Level II, as it used to be. The data for the compared period have been appropriately restated.

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

(in PLN thousand)

7.20 Receivables, including insurance receivables

Receivables, including insurance receivables – carrying amount	30 June 2016	31 December 2015
Receivables from direct insurance, including:	2,063,816	1,768,263
- receivables from policyholders	1,803,437	1,564,151
- receivables from insurance intermediaries	173,240	178,813
- other receivables	87,139	25,299
Reinsurance receivables	88,168	49,023
Other receivables	4,603,206	1,453,507
Net receivables, including insurance receivables	**6,755,190**	**3,270,793**

As at both 30 June 2016 and 31 December 2015, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the policy of creating impairment losses.

7.20.1. Other receivables

Other receivables	30 June 2016	31 December 2015
Receivables from the State Budget, other than due to income tax	49,702	45,441
Receivables from debit cards settlements	89,097	148,690
Receivables relating to prevention activities	44,857	62,111
Receivables from claims representative services	10,387	9,663
Receivables from security transactions and collateral deposits	4,067,644	782,735
Trade receivables	205,746	269,637
Receivables from direct claims handling performed on behalf of other insurance companies	44,885	40,414
Receivables from banks	15,925	26,287
Other	74,963	68,529
Total other receivables	**4,603,206**	**1,453,507**

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

(in PLN thousand)

7.21 Impairment of financial assets and reveivables

Changes in impairment losses on financial assets in the period 1 January–30 June 2016	Impairment losses – opening balance	Recognition of impairment losses in the profit or loss account	Release of impairment losses in the profit or loss account	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Impairment losses – closing balance
Available-for-sale financial instruments	**45,900**	**6,975**	**-**	**-**	**(9)**	**52,866**
Equity instruments	45,900	-	-	-	(9)	45,891
Debt instruments	-	6,975	-	-	-	6,975
Financial assets held to maturity	**1,236**	**-**	**-**	**-**	**47**	**1,283**
Debt instruments	1,236	-	-	-	47	1,283
Loans	**76,526**	**350,816**	**-**	**(22,302)**	**(10)**	**405,030**
Debt instruments	42,837	22,561	-	-	-	65,398
Loan receivables from clients	-	328,255	-	(3,944)	-	324,311
Term deposits with credit institutions	892	-	-	-	(10)	882
Loans	32,797	-	-	(18,358)	-	14,439
Receivables, including insurance receivables	**588,356**	**69,840**	**(31,042)**	**(1,253)**	**118**	**626,019**
Receivables from direct insurance	562,224	66,058	(27,735)	(808)	98	599,837
Reinsurance receivables	6,248	1,667	(2,337)	-	(1)	5,577
Other receivables	19,884	2,115	(970)	(445)	21	20,605
Reinsurers' share in technical provisions	**10,793**	**12,914**	**(2,383)**	**-**	**-**	**21,324**
Cash and cash equivalents	**1,308**	**-**	**-**	**-**	**(15)**	**1,293**
Total	**724,119**	**440,545**	**(33,425)**	**(23,555)**	**131**	**1,107,815**

(in PLN thousand)

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

As at the date of consolidating Alior Bank Capital Group, loan receivables of clients towards Alior Bank were measured at fair value, and thus, as at 31 December 2015, no impairment losses on those assets were recognized.

(in PLN thousand)

Changes in impairment losses on financial assets in the period 1 January–30 June 2015	Impairment losses – opening balance	Recognition of impairment losses in the profit or loss account	Release of impairment losses in the profit or loss account	Derecognition of impairment losses (sale, write-off etc.)	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Available-for-sale financial instruments	**158,163**	**-**	**-**	**-**	**(218)**	**-**	**157,945**
Equity instruments	158,163	-	-	-	(218)	-	157,945
Financial assets held to maturity	**1,235**	**-**	**-**	**-**	**(19)**	**-**	**1,216**
Debt instruments	1,235	-	-	-	(19)	-	1,216
Loans	**25,020**	**7,039**	**-**	**-**	**11**	**-**	**32,070**
Debt instruments	10,144	6,083	-	-	-	-	16,227
Term deposits with credit institutions	-	956	-	-	28	-	984
Loans	14,876	-	-	-	(17)	-	14,859
Receivables, including insurance receivables	**593,647**	**71,445**	**(54,366)**	**(425)**	**(1,167)**	**(1,679)**	**607,455**
Receivables from direct insurance	565,901	68,961	(52,891)	(147)	(955)	124	580,993
Reinsurance receivables	5,021	1,713	(1,238)	-	-	-	5,496
Other receivables	22,725	771	(237)	(278)	(212)	(1,803)	20,966
Reinsurers' share in technical provisions	**17,531**	**3,980**	**(3,541)**	**-**	**-**	**-**	**17,970**
Cash and cash equivalents	**-**	**1,388**	**-**	**-**	**41**	**-**	**1,429**
Total	**795,596**	**83,852**	**(57,907)**	**(425)**	**(1,352)**	**(1,679)**	**818,085**

7.22 Exposure to credit risk in investment activity

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

The statement presenting assets exposed to credit risk do not include loan receivables from clients and insurance receivables. These results arose mainly from significant dispersion of the portfolio of assets, which led to, among others, a significant share of receivables from small enterprises and retail customers who do not have ratings.

(in PLN thousand)

Assets exposed to credit risk as at 30 June 2016	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		574,338	22,822	37,873,667	3,201,207	249,943	762,661	1,481,256	44,165,894
- held to maturity	7.18.1	322	-	16,951,400	233,213	45,907	50,951	-	17,281,793
- available for sale	7.18.2	-	5,939	9,778,972	353,386	22,412	376,736	-	10,537,445
- measured at fair value	7.18.3	574,016	16,883	10,299,781	963,760	181,624	56,530	1,481,256	13,573,850
- loans	7.18.4	-	-	843,514	1,650,848	-	278,444	-	2,772,806
Bank deposits and repo transactions involving treasury securities	7.18.4	-	-	4,227,098	1,767,325	974	552,857	233,585	6,781,839
Other loans	7.18.4	-	-	133,422	-	-	1,533,939	-	1,667,361
Derivative instruments	7.18.7	6,111	19,005	523,155	60,282	-	367,055	-	975,608 [1)]
Reinsurers' share in net claim provisions	7.16	-	338,533	276,331	387	216	83,037	-	698,504
Reinsurance receivables	7.20	-	21,692	31,561	309	-	34,606	-	88,168
Total		**580,449**	**402,052**	**43,065,234**	**5,029,510**	**251,133**	**3,334,155**	**1,714,841**	**54,377,374**

[1)] Including PLN 53,661 thousand in derivative instruments disclosed as cash flow hedge transactions.

Assets exposed to credit risk as at 31 December 2015	Note	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt instruments		996,787	7,583	33,389,390	2,930,295	1,005,990	596,027	1,533,680	40,459,752
- held to maturity	7.18.1	-	-	17,146,791	137,859	79,058	6,418	-	17,370,126
- available for sale	7.18.2	519,011	-	5,830,345	384,648	94,046	317,700	-	7,145,750
- measured at fair value	7.18.3	477,776	7,583	10,208,680	422,146	530,646	32,758	1,533,680	13,213,269
- loans	7.18.4	-	-	203,574	1,985,642	302,240	239,151	-	2,730,607
Bank deposits and repo transactions involving treasury securities s	7.18.4	-	-	4,900,606	2,914,301	6,553	498,917	91,407	8,411,784
Other loans	7.18.4	-	-	68,096	-	158,805	1,702,144	-	1,929,045
Derivative instruments	7.18.7	-	66,641	762,776	47,499	-	236,038	-	1,112,954 [1)]
Reinsurers' share in net claim provisions	7.16	-	353,232	310,385	534	-	93,446	-	757,597
Reinsurance receivables	7.20	-	8,436	21,677	1,223	-	17,687	-	49,023
Total		**996,787**	**435,892**	**39,452,930**	**5,893,852**	**1,171,348**	**3,144,259**	**1,625,087**	**52,720,155**

[1)] Including PLN 139,578 thousand in derivative instruments disclosed as cash flow hedge transactions.

(in PLN thousand)

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

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating [1)]
Ratio (%) on 30 June 2016	0.72	0.79	1.48	3.89	13.45	25.37
Ratio (%) on 31 December 2015	0.74	0.82	1.51	4.06	13.74	25.91

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

The credit risk, to which PZU Group was exposed as at 30 June 2016 amounted to PLN 1,720,021 thousand (31 December 2015: PLN 1,821,601 thousand; after applying the coefficients of 30 June 2016, the risk would amount to PLN 1,779,040 thousand).

7.23 Assets held for sale

Assets held for sale before reclassification	30 June 2016	31 December 2015
Property, plant and equipment	42,767	44,221
Investment property	1,419,130	1,461,827
Total assets held for sale	**1,461,897**	**1,506,048**

As at 30 June 2016 and 31 December 2015, the item "Investment property" included the property held for sale by property investment funds as a result of achieving the expected investment horizon (in the amount of PLN 1,337,490 thousand and PLN 1,345,100 thousand, respectively).

7.24 Technical provisions

Technical provisions	30 June 2016	31 December 2015
Technical provisions – non-life insurance	**19,804,431**	**19,278,600**
Unearned premiums reserve	6,409,539	5,642,997
Unexpired risks reserve	141,758	119,183
Provisions for unpaid claims and benefits	7,514,393	7,706,360
Provisions for the capitalized value of annuities	5,736,260	5,807,892
Provisions for bonuses and rebates for the insured	2,481	2,168
Technical provisions – life insurance	**21,897,286**	**22,001,721**
Unearned premiums reserve	91,725	93,816
Life insurance provision	16,171,767	16,221,886
Provisions for unpaid claims and benefits	564,372	557,680
Provisions for bonuses and rebates for the insured	759	494
Other technical provisions	365,912	383,888
Unit-linked reserve	4,702,751	4,743,957
Total technical provisions	**41,701,717**	**41,280,321**

(in PLN thousand)

Change in technical provisions – non-life insurance

Change in unearned premiums reserve in non-life insurance	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,642,997	(339,157)	5,303,840	5,133,390	(302,118)	4,831,272	5,133,390	(302,118)	4,831,272
Increase in provisions for policies concluded in the current year	4,566,091	(138,297)	4,427,794	5,212,891	(248,995)	4,963,896	3,622,518	(94,547)	3,527,971
Decrease in provisions for policies concluded in previous years	(3,818,995)	165,098	(3,653,897)	(4,689,324)	207,871	(4,481,453)	(3,402,643)	157,749	(3,244,894)
Exchange differences during the period	19,446	(370)	19,076	(13,960)	4,085	(9,875)	(16,950)	3,114	(13,836)
Closing balance	**6,409,539**	**(312,726)**	**6,096,813**	**5,642,997**	**(339,157)**	**5,303,840**	**5,336,315**	**(235,802)**	**5,100,513**

Change in unexpired risk reserve in non-life insurance	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	119,183	-	119,183	19,257	-	19,257	19,257	-	19,257
Increase in provisions for policies concluded in the current year	109,928	-	109,928	115,696	-	115,696	25,306	(220)	25,086
Decrease in provisions for policies concluded in previous years	(87,761)	-	(87,761)	(15,378)	-	(15,378)	(9,506)	-	(9,506)
Exchange differences during the period	408	-	408	(392)	-	(392)	(363)	(6)	(369)
Closing balance	**141,758**	**-**	**141,758**	**119,183**	**-**	**119,183**	**34,694**	**(226)**	**34,468**

(in PLN thousand)

Change in outstanding claims provisions in non-life insurance	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance, including:	7,706,360	(579,113)	7,127,247	7,258,764	(296,900)	6,961,864	7,258,764	(296,900)	6,961,864
- for claims reported	3,146,098	(527,713)	2,618,385	2,704,345	(228,795)	2,475,550	2,704,345	(228,795)	2,475,550
- for claims incurred but not reported (IBNR)	2,825,240	(28,973)	2,796,267	2,868,611	(46,259)	2,822,352	2,868,611	(46,259)	2,822,352
- for claims handling expenses	1,735,022	(22,427)	1,712,595	1,685,808	(21,846)	1,663,962	1,685,808	(21,846)	1,663,962
Paid benefits concerning claims incurred in previous years, including:	(1,680,446)	119,801	(1,560,645)	(2,051,618)	51,404	(2,000,214)	(1,326,182)	30,587	(1,295,595)
- paid claims and benefits	(1,455,909)	115,790	(1,340,119)	(1,721,861)	46,959	(1,674,902)	(1,130,985)	28,367	(1,102,618)
- claims handling costs	(224,537)	4,011	(220,526)	(329,757)	4,445	(325,312)	(195,197)	2,220	(192,977)
Increase (decrease) in provisions, including:	1,476,363	(71,525)	1,404,838	2,506,646	(334,282)	2,172,364	1,301,553	(41,423)	1,260,130
- for losses incurred in the current year	1,675,159	(18,309)	1,656,850	2,631,146	(342,841)	2,288,305	1,360,752	(38,871)	1,321,881
- for losses incurred in previous years	(198,796)	(53,216)	(252,012)	(124,500)	8,559	(115,941)	(59,199)	(2,552)	(61,751)
Other changes	-	7,721	7,721	-	(2,904)	(2,904)	-	219	219
Exchange differences during the period	12,116	(816)	11,300	(7,432)	3,569	(3,863)	(10,592)	3,340	(7,252)
Closing balance	**7,514,393**	**(523,932)**	**6,990,461**	**7,706,360**	**(579,113)**	**7,127,247**	**7,223,543**	**(304,177)**	**6,919,366**
- for claims reported	3,046,656	(484,630)	2,562,026	3,146,098	(527,713)	2,618,385	2,805,223	(252,076)	2,553,147
- for claims incurred but not reported (IBNR)	2,750,413	(19,146)	2,731,267	2,825,240	(28,973)	2,796,267	2,725,668	(30,465)	2,695,203
- for claims handling expenses	1,717,324	(20,156)	1,697,168	1,735,022	(22,427)	1,712,595	1,692,652	(21,636)	1,671,016

Change in provisions for the capitalized value of annuities – non-life insurance	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	5,807,892	(178,424)	5,629,468	5,997,595	(154,042)	5,843,553	5,997,595	(154,042)	5,843,553
Paid claims concerning losses incurred in previous years	(144,744)	3,992	(140,752)	(215,114)	5,853	(209,261)	(93,030)	2,562	(90,468)
Increase (decrease) in provisions for losses incurred in the previous years	9,271	(1,420)	7,851	(115,827)	(26,158)	(141,985)	7,846	(16,163)	(8,317)
Discount settlement over time	(7,169)	84	(7,085)	(15,044)	85	(14,959)	(7,522)	43	(7,479)
Increase in provisions for losses incurred in the current year	70,775	(1,605)	69,170	166,396	(22)	166,374	115,862	(13)	115,849
Other changes	-	2,810	2,810	(10,098)	(4,146)	(14,244)	-	219	219
Exchange differences during the period	235	(9)	226	(16)	6	(10)	(115)	8	(107)
Closing balance	**5,736,260**	**(174,572)**	**5,561,688**	**5,807,892**	**(178,424)**	**5,629,468**	**6,020,636**	**(167,386)**	**5,853,250**

(in PLN thousand)

Change in technical provisions – life insurance

Change in life insurance provision – insurance contracts	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	16,606,268	-	16,606,268	16,721,639	-	16,721,639	16,721,639	-	16,721,639
Increase (decrease) in provisions related to current year policies	174,274	-	174,274	434,269	-	434,269	230,783	-	230,783
Increase (decrease) in provisions related to prior year policies	(244,013)	-	(244,013)	(527,141)	-	(527,141)	(264,108)	-	(264,108)
Changes in assumptions resulting from technical interest rate changes	569	-	569	498	-	498	-	-	-
Exchange differences	1,340	-	1,340	(22,997)	-	(22,997)	(17,986)	-	(17,986)
Closing balance	**16,538,438**	**-**	**16,538,438**	**16,606,268**	**-**	**16,606,268**	**16,670,328**	**-**	**16,670,328**

Gross change in life unit-linked insurance provision	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
Opening balance	4,743,957	-	4,743,957	4,425,556	-	4,425,556	4,425,556	-	4,425,556
Increases in the fund due to premiums	434,493	-	434,493	965,607	-	965,607	562,323	-	562,323
Payments deducted from the fund for risk, administration and other	(45,921)	-	(45,921)	(89,502)	-	(89,502)	(43,550)	-	(43,550)
Revenue from the fund's investments	(43,872)	-	(43,872)	(3,471)	-	(3,471)	109,520	-	109,520
Decreases in the fund due to claims, redemptions, etc.	(366,362)	-	(366,362)	(538,013)	-	(538,013)	(242,712)	-	(242,712)
Other changes	(19,544)	-	(19,544)	(16,220)	-	(16,220)	(5,656)	-	(5,656)
Closing balance	**4,702,751**	**-**	**4,702,751**	**4,743,957**	**-**	**4,743,957**	**4,805,481**	**-**	**4,805,481**

(in PLN thousand)

Change in provisions for outstanding claims	1 January–30 June 2016			1 January–31 December 2015			1 January–30 June 2015		
	gross	reinsurers' share	own share	gross	reinsurers' share	own share	gross	reinsurers' share	own share
RBNP at the beginning of the period	155,146	(60)	155,086	112,728	-	112,728	112,728	-	112,728
IBNR at the beginning of the period	402,534	-	402,534	398,859	-	398,859	398,859	-	398,859
Total RBNP and IBNR at the beginning of the period	**557,680**	**(60)**	**557,620**	**511,587**	**-**	**511,587**	**511,587**	**-**	**511,587**
Provisions for claims applied during the year	(465,940)	60	(465,880)	(564,032)	-	(564,032)	(483,095)	-	(483,095)
Provisions for claims created during the year	472,632	-	472,632	610,125	(60)	610,065	516,704	(17)	516,687
Total RBNP and IBNR at the end of the period	**564,372**	**-**	**564,372**	**557,680**	**(60)**	**557,620**	**545,196**	**(17)**	**545,179**
RBNP at the end of the period	132,841	-	132,841	155,146	(60)	155,086	132,880	(17)	132,863
IBNR at the end of the period	431,531	-	431,531	402,534	-	402,534	412,316	-	412,316

(in PLN thousand)

7.25 Other provisions

Change in other provisions in the period 1 January–30 June 2016	Opening balance	Increase	Utilisation	Release	Exchange differences	Closing balance
Provision for restructuring expenses	2,777	-	(1,516)	-	-	1,261
Provision for disputed claims and potential liabilities	4,056	964	(27)	-	(340)	4,653
Provision for the Office of Competition and Consumer Protection penalties[1)]	57,880	61	-	-	-	57,941
Provision for exit costs of the GraphTalk project	5,614	171	-	-	-	5,785
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	9,092	-	-	-	-	9,092
Other	28,690	10,895	(2,748)	(9,731)	201	27,307
Total other provisions	**108,109**	**12,091**	**(4,291)**	**(9,731)**	**(139)**	**106,039**

Changes in other provisions in the year ended 31 December 2015	Opening balance	Increase	Utilisation	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses	9,354	3,760	(6,604)	(3,733)	-	-	2,777
Provision for disputed claims and potential liabilities	781	56	-	-	3,219	-	4,056
Provision for the Office of Competition and Consumer Protection penalties[1)]	119,551	3	(50,384)	(11,290)	-	-	57,880
Provision for exit costs of the GraphTalk project	22,668	338	(17,392)	-	-	-	5,614
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,234	1,881	(23)	-	-	-	9,092
Other	31,618	15,409	(16,020)	(9,310)	7,106	(113)	28,690
Total other provisions	**191,206**	**21,447**	**(90,423)**	**(24,333)**	**10,325**	**(113)**	**108,109**

Change in other provisions in the period 1 January – 30 June 2015	Opening balance	Increase	Utilisation	Release	Business combinations	Exchange differences	Closing balance
Provision for restructuring expenses	9,354	-	(4,182)	(201)	-	-	4,971
Provision for co-insurance settlements	-	23,471	-	-	-	-	23,471
Provision for disputed claims and potential liabilities under insurance contracts	781	36	-	-	-	-	817
Provision for the Office of Competition and Consumer Protection penalties[1)]	119,551	2	-	(1)	-	-	119,552
Provision for exit costs of the GraphTalk project	22,668	-	(17,228)	-	-	-	5,440
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,234	-	-	-	-	-	7,234
Other	31,618	8,950	(6,850)	(1,974)	1,594	(178)	33,160
Total other provisions	**191,206**	**32,459**	**(28,260)**	**(2,176)**	**1,594**	**(178)**	**194,645**

[1)] The item "Provision for the Office of Competition and Consumer Protection penalties" is described in points 15.2 and 15.3.

7.26 Financial liabilities

Financial liabilities	30 June 2016	31 December 2015 *(restated)*
Financial liabilities measured at fair value	**2,537,042**	**2,196,473**
Derivatives held for trading	927,388	940,484
Liabilities from loans	548,567	206,626
Unit-linked investment contracts	345,557	392,914
Liabilities to participants of consolidated investment funds	715,530	656,449
Financial liabilities measured at amortized cost	**44,661,412**	**42,497,976**
Liabilities to banks	583,157	600,298
Current deposits	11,011	11,012
Overnight deposits	200,008	30,701
Term deposits	47,775	197,826
Issue of bank securities (Alior Bank)	20,002	32,666
Credits received	162,958	124,780
Other liabilities	141,403	203,313
Liabilities to clients	37,912,227	33,655,744
Current deposits	13,946,775	12,475,022
Term deposits	21,259,397	18,529,163
Issue of bank securities (Alior Bank)	2,338,098	2,259,230
Other liabilities	367,957	392,329
Liabilities arising from the issue of own debt instruments (PZU)	3,702,001	3,536,546
Subordinated liabilities (Alior Bank)	1,027,733	758,560
Liabilities from sell-buy-back transactions	1,331,871	3,794,306
Investment contracts with guaranteed and fixed terms and conditions	104,423	152,522
Total financial liabilities	**47,198,454**	**44,694,449**

7.26.1. Subordinated liabilities

Total balance of subordinated liabilities concerns liabilities incurred by Alior Bank.

	Nominal value	Rate	Date of issue/ granting a loan	Date of redemption/ loan payment
Liabilities recognized as own funds				
Subordinated loan (EUR thousand)	10,000	3-month EURIBOR + margin	12 October 2011	12 October 2019
F series bonds (PLN thousand)	321,700	6-month WIBOR + margin	26 September 2014	26 September 2024
G series bonds (PLN thousand)	192,950	6-month WIBOR + margin	31 March 2015	31 March 2021
I and I1 series bonds (PLN thousand)	183,350	6-month WIBOR + margin	4 December 2015	6 December 2021
Meritum Bank bonds (PLN thousand)	67,200	6-month WIBOR + margin	29 April 2013	29 April 2021
Meritum Bank bonds (PLN thousand)	80,000	6-month WIBOR + margin	21 October 2014	21 October 2022
EUR001 series bonds (EUR thousand)	10,000	6-month LIBOR + margin	4 February 2016	4 February 2022
P1A series bonds (PLN thousand)	150,000	6-month WIBOR + margin	27 April 2016	16 May 2022
P1B series bonds (PLN thousand)	70,000	6-month WIBOR + margin	29 April 2016	16 May 2024

Subordinated liabilities, carrying amount	30 June 2016	31 December 2015
Liabilities recognized as own funds	**1,027,733**	**758,560**
Subordinated loan	44,442	42,818
F series bonds	224,595	224,633
G series bonds	195,499	195,555
I series bonds	114,125	114,145
I1 series bonds	33,476	33,482
Meritum Bank bonds	147,972	147,927
EUR001 series bonds	45,332	-
P1A series bonds	151,609	-
P1B series bonds	70,683	-
Subordinated liabilities	**1,027,733**	**758,560**

A lower carrying amount of subordinated liabilities versus the nominal value presented above results from the fact that a part of bonds issued by Alior Bank was included in consolidated investment funds and is offset during consolidation.

7.26.2. Liabilities arising from the issue of own debt instruments

	Nominal value (in EUR thousand)	Rate	Date of issue/granting a loan	Date of redemption/loan payment
Bonds of PZU Finance AB (publ.)	850,000	1.375%	3 July 2014 16 October 2015	3 July 2019

The liabilities of PZU Finance AB (publ.) arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by PZU to all bondholders. The maximum value of the guarantee was not specified and it is effective until the expiry of the claims of the bondholders towards PZU Finance AB (publ.).

(in PLN thousand)

7.27 Other liabilities

Other liabilities	30 June 2016	31 December 2015 *(restated)*
Accrued costs	**943,769**	**1,008,246**
Accrued costs of brokers' commissions	287,585	272,153
Accrued remuneration costs	132,582	114,245
Accrued costs from reinsurance	313,766	412,227
Accrued employee bonuses	66,429	86,283
Other	143,407	123,338
Deferred income	**139,799**	**116,682**
Other liabilities	**6,508,566**	**2,375,805**
Direct insurance liabilities	778,602	696,166
Reinsurance liabilities	149,194	96,718
Liabilities to the State Budget, other than due to income tax	59,063	34,576
Public legal settlements:	58,721	51,538
Liabilities to employees	7,443	9,110
Insurance Guarantee Fund	14,036	11,247
Liabilities arising from financial instrument transactions	2,961,796	365,614
Liabilities from acquisition of third tranche of shares of Alior Bank	-	341,709
Liabilities to PZU shareholders (dividends)	1,799,110	2,982
Trade payables to suppliers	86,191	122,078
Estimated non-insurance liabilities	89,499	175,786
Liabilities towards banks due to payment instruments cleared in interbank settlement systems	261,127	183,574
Estimated returns of remuneration resulting from Alior Bank clients resigning or withdrawing from the insurance policies concluded during sale of credit products	81,086	94,045
Liabilities of Alior Bank due to banking product insurance offered to the clients of the bank	27,027	66,941
Direct claims handling liabilities	9,647	11,113
Liabilities arising from non-market lease agreements	24,314	29,348
Other	101,710	83,260
Total other liabilities	**7,592,134**	**3,500,733**

(in PLN thousand)

8. Contingent assets and liabilities

Contingent assets and liabilities	**30 June 2016**	**31 December 2015**
Contingent assets:	56,759	33,126
- guarantees and sureties received	56,759	33,126
Contingent liabilities	10,389,452	10,081,994
- resulting from renewable limits in current and saving accounts and credit cards	7,758,678	7,371,753
- guarantees and sureties issued	1,454,428	1,576,178
- disputed claims related to insurance	500,783	389,854
- other disputed claims	202,167	211,282
- other, including:	473,396	532,927
- liabilities from loan tranches unused by debtors until the end of the financial year	408,505	472,988
- potential liabilities arising from loan agreements entered into by the Armatura Group	25,861	31,478

9. Capital management

External capital requirements

On 10 November 2015, a new Act on Insurance and Reinsurance was published, aimed at implementing the Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance ("Solvency II"). The Act came into force on 1 January 2016. Under the new Act, the calculation of capital requirements is based on market risk, underwriting (insurance) risk, counterparty risk, catastrophic risk and operational risk. Assets, liabilities and, consequently, own funds covering the capital requirement are measured at fair value.

PZU Group meets all imposed capital requirements by holding own funds whose amount considerably exceeds the capital requirement which, in turn, is lower than own capital it holds.

10. Segment reporting

10.1 Reporting segments

10.1.1. Key division criterion

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

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

PZU, Link4 and TUW PZUW segments:

- corporate insurance (non-life insurance);
- retail customer insurance (non-life insurance);
- investment activities – comprising investments using own funds.

PZU Życie segments:

- group insurance and individually continued insurance (life insurance);
- individual life insurance (life insurance);
- investment activities – including investments using own funds;
- investment contracts – described further in this chapter.

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

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

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

10.1.2. Geographical areas

PZU Group applies additional geographical segmentation, with the following geographical areas:

- Poland;
- Baltic states;
- Ukraine.

10.2 Settlements among segments

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

10.3 Measure of profit of a segment

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

- in insurance companies registered in Poland – a profit or loss on insurance constituting the profit or loss before tax and other operating income and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in PAS, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
    - in the case of insurance companies registered abroad – as described above, taking into account the total investment performance of the company, i.e. without adjusting the profit on investment described above, calculated in accordance with IFRS;
    - in non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax.

10.4 Segment characteristics

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

- corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, third party and motor insurance products customized to meet customers' expectations and with individual risk assessment, offered to big enterprises;
- retail customer insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to retail customers and entities in the SME sector;
- group and individually continued insurance (life insurance) – reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- individual insurance (life insurance) – reporting in accordance with Polish Accounting Standards – insurance offered by PZU to individual customers whereby an insurance contract covers a given individual who is subject to separate risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- investment – reporting in accordance with Polish Accounting Standards – comprises investment activity conducted with the PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions in insurance products, i.e. the surplus of income from investment activities over the income to

insurance segments according to transfer prices. Additionally, the "Investments" segment includes income earned on other excess cash in PZU Group (including consolidated investment funds);

- banking activity – reporting in accordance with IFRS – comprises Alior Bank along with its subsidiaries;
- pension insurance – reporting in accordance with Polish Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB, AAS Balta, UAB Lietuva, UAB PZU Lietuva Gyvybes Draudimas and their branches in Latvia and Estonia;
- investment contracts – reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products);
- other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "Other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

10.5 Polish Accounting Standards applied

10.5.1. PZU

PAS and the differences between PAS and IFRS in respect of financial reporting of PZU have been presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna 2015.

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

10.5.2. PZU Życie

The PZU accounting policy in accordance with PAS is convergent with PZU PAS policy.

The specific difference for PZU Życie are the accounting policies regarding insurance contracts and investment contracts in accordance with IFRS. Detailed information concerning this matter has been presented in the consolidated financial statements for 2015.

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

10.6 Structure of the segment reporting note and reconciliations

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

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

10.7 Simplifications in the segment note

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

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

10.8 Information on key accounts

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

(in PLN thousand)

Profit or loss account for the period from 1 April 2016 to 30 June 2016	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Banking activity	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	IFRS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	552 377	2 157 252	1 700 966	291 455	-	-	-	48 102	311 229	13 393	-	5 074 776
Gross written premiums - cross-segment	3 425	637	-	-	-	-	-	-	-	-	-	4 062
Gross written premiums	**555 802**	**2 157 889**	**1 700 966**	**291 455**	-	-	-	**48 103**	**311 230**	**13 393**	-	**5 078 838**
Reinsurers' share in gross written premium	(79 711)	(3 906)	-	-	-	-	-	(16 042)	(5 996)	-	-	(105 655)
Net written premiums	**476 091**	**2 153 983**	**1 700 966**	**291 455**	-	-	-	**32 061**	**305 234**	**13 393**	-	**4 973 183**
	-	-	-	-	-	-	-	-	-	-	-	-
Changes in unearned premiums and unexpired risks reserves (gross)	(75 755)	(234 692)	(15)	(505)	-	-	-	(1 210)	(34 917)	20	-	(347 074)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	26 531	(9 461)	-	-	-	-	-	(5 014)	(1 462)	-	-	10 594
Net earned premiums	**426 867**	**1 909 830**	**1 700 951**	**290 950**	-	-	-	**25 837**	**268 855**	**13 413**	-	**4 636 703**
	-	-	-	-	-	-	-	-	-	-	-	-
Revenue from commissions and fees	-	-	-	-	-	137 134	-	-	-	-	-	137 134
Investment income, including:	35 563	148 358	100 591	65 102	432 520	459 607	1 252	2 918	5 450	(3 670)	2 972	1 250 663
Net investment result (external transactions)	35 563	148 358	100 591	65 102	(520 454)	459 607	1 252	2 918	5 450	(3 670)	2 972	297 689
Net investment result (cross-segment transactions)	-	-	-	-	952 974	-	-	-	-	-	-	952 974
	-	-	-	-	-	-	-	-	-	-	-	-
Other technical income net of reinsurance	17 724	12 937	224	20	-	-	-	-	-	-	-	30 905
Operating revenues of non-insurance companies	-	-	-	-	-	-	32 449	-	-	-	221 323	253 772
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	24 426	41	-	-	-	3 534	28 001
	-	-	-	-	-	-	-	-	-	-	-	-
Gross claims and benefits paid	(345 303)	(1 309 443)	(1 175 323)	(276 794)	-	-	-	(14 991)	(169 818)	(68 188)	-	(3 359 860)
Changes in provisions for outstanding claims and benefits (gross)	51 808	32 863	10 252	3 272	-	-	-	3 235	2 885	(1 027)	-	103 288
Reinsurers' share in claims and benefits paid	72 734	61 395	13	-	-	-	-	6 497	3 549	-	-	144 187
Reinsurer' share in change in provisions	(47 604)	(3 054)	-	-	-	-	-	(1 754)	(1 865)	-	-	(54 277)
Net claims	**(268 365)**	**(1 218 239)**	**(1 165 058)**	**(273 522)**	-	-	-	**(7 013)**	**(165 250)**	**(69 215)**	-	**(3 166 662)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	17 093	16 776	-	-	-	-	-	62 860	-	96 729
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(656)	(7)	(79)	(65)	-	-	-	-	-	4	-	(803)
Other technical charges – net of reinsurance	(4 203)	(83 012)	(21 196)	(2 318)	-	-	-	-	-	(97)	-	(110 826)
Costs of commissions and fees	-	-	-	-	-	(60 976)	-	-	-	-	-	(60 976)
Interest expenses	-	-	-	-	-	(100 203)	-	-	(498)	-	(1 069)	(101 770)
Acquisition costs	(91 570)	(377 058)	(78 559)	(24 049)	-	-	(1 043)	(14 615)	(60 622)	(804)	-	(648 321)
Administrative expenses	(29 245)	(148 024)	(141 680)	(14 764)	-	(259 549)	(8 698)	(5 689)	(30 891)	(2 140)	-	(640 681)
Reinsurance commission and share in profits	3 530	(5 851)	-	-	-	-	-	5 354	361	-	-	3 394
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	-	(200 722)	(200 722)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(89 636)	(136)	-	-	-	(20 546)	(110 318)
Insurance result / Operating profit (loss)	**89 645**	**238 934**	**412 287**	**58 130**	**432 520**	**110 803**	**23 865**	**6 791**	**17 404**	**351**	**5 492**	**1 396 222**

(in PLN thousand)

Profit or loss account for the period from 1 January 2016 to 30 June 2016	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Banking activity	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	IFRS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	966 491	4 276 711	3 389 841	537 986	-	-	-	106 061	584 897	60 749	-	9 922 736
Gross written premiums - cross-segment	63 932	28 071	-	-	-	-	-	-	-	-	-	92 003
Gross written premiums	**1 030 423**	**4 304 782**	**3 389 841**	**537 986**	-	-	-	**106 061**	**584 897**	**60 749**	-	**10 014 739**
Reinsurers' share in gross written premium	(105 551)	(7 627)	150	-	-	-	-	(48 176)	(18 197)	-	-	(179 401)
Net written premiums	**924 872**	**4 297 155**	**3 389 991**	**537 986**	-	-	-	**57 885**	**566 700**	**60 749**	-	**9 835 338**
Changes in unearned premiums and unexpired risks reserves (gross)	(119 829)	(634 982)	(36)	2 202	-	-	-	(17 439)	(39 652)	32	-	(809 704)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	(13 394)	(20 137)	-	-	-	-	-	9 180	3 526	-	-	(20 825)
Net earned premiums	**791 649**	**3 642 036**	**3 389 955**	**540 188**	-	-	-	**49 626**	**530 574**	**60 781**	-	**9 004 809**
Revenue from commissions and fees	-	-	-	-	-	275 104	-	-	-	-	-	275 104
Investment income, including:	63 580	275 187	290 726	77 563	557 939	1 024 325	2 541	10 503	9 453	2 381	2 451	2 316 649
Net investment result (external transactions)	63 580	275 187	290 726	77 563	(401 007)	1 024 325	2 541	10 503	9 453	2 381	2 451	1 357 703
Net investment result (cross-segment transactions)	-	-	-	-	958 946	-	-	-	-	-	-	958 946
Other technical income net of reinsurance	27 474	32 868	454	80	-	-	-	-	-	3	-	60 879
Operating revenues of non-insurance companies	-	-	-	-	-	-	56 383	-	-	-	365 557	421 940
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	46 087	2 041	-	-	-	7 265	55 393
Gross claims and benefits paid	(639 876)	(2 634 019)	(2 373 515)	(631 246)	-	-	-	(34 382)	(338 095)	(150 968)	-	(6 802 101)
Changes in provisions for outstanding claims and benefits (gross)	136 481	134 828	(4 711)	(1 812)	-	-	-	(3 278)	(2 782)	(1 593)	-	257 133
Reinsurers' share in claims and benefits paid	95 934	72 373	37	-	-	-	-	12 126	8 345	-	-	188 815
Reinsurer' share in change in provisions	(31 517)	(14 991)	-	-	-	-	-	885	578	-	-	(45 045)
Net claims	**(438 978)**	**(2 441 809)**	**(2 378 189)**	**(633 058)**	-	-	-	**(24 649)**	**(331 954)**	**(152 561)**	-	**(6 401 198)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	(84 619)	211 858	-	-	-	-	-	97 005	-	224 244
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(604)	(13)	(155)	(144)	-	-	-	-	-	12	-	(904)
Other technical charges – net of reinsurance	(26 587)	(168 792)	(37 975)	(4 268)	-	-	-	-	-	(249)	-	(237 871)
Costs of commissions and fees	-	-	-	-	-	(111 685)	-	-	-	-	-	(111 685)
Interest expenses						(350 951)		-	(1 003)		(2 109)	(354 063)
Acquisition costs	(167 662)	(736 119)	(166 991)	(49 340)	-	-	(2 073)	(26 604)	(121 173)	(2 465)	-	(1 272 427)
Administrative expenses	(54 986)	(293 979)	(285 822)	(29 649)	-	(502 058)	(17 272)	(10 042)	(61 174)	(4 856)	-	(1 259 838)
Reinsurance commission and share in profits	8 199	(2 832)	(45)	-	-	-	-	10 070	688	-	-	16 080
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	-	(346 791)	(346 791)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(163 758)	(182)	-	-	-	(26 055)	(189 995)
Insurance result / Operating profit (loss)	**202 085**	**306 547**	**727 339**	**113 230**	**557 939**	**217 064**	**41 438**	**8 904**	**25 411**	**51**	**318**	**2 200 326**

(in PLN thousand)

Profit or loss account for the period from 1 April 2015 to 30 June 2015 roku	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	391 702	1 678 408	1 676 718	341 449	-	-	39 052	318 294	30 809	-	4 476 432
Gross written premiums - cross-segment	(62)	17 928	-	-	-	-	-	-	-	-	17 866
Gross written premiums	**391 640**	**1 696 336**	**1 676 718**	**341 449**	-	-	**39 052**	**318 294**	**30 809**	-	**4 494 298**
Reinsurers' share in gross written premium	(12 638)	(1 521)	59	-	-	-	(15 020)	(7 449)	-	-	(36 569)
Net written premiums	**379 002**	**1 694 815**	**1 676 777**	**341 449**	-	-	**24 032**	**310 845**	**30 809**	-	**4 457 729**
	-	-	-	-	-	-	-	-	-	-	-
Changes in unearned premiums and unexpired risks reserves (gross)	26 843	3 320	(252)	(529)	-	-	(2 165)	(35 021)	-	-	(7 802)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	(37 215)	(16 624)	-	-	-	-	4 857	2 937	-	-	(46 045)
Net earned premiums	**368 630**	**1 681 511**	**1 676 525**	**340 920**	-	-	**26 725**	**278 762**	**30 809**	-	**4 403 882**
	-	-	-	-	-	-	-	-	-	-	-
Investment income, including:	35 796	152 716	135 820	32 414	936 314	1 754	1 356	1 886	(2 373)	(15 494)	1 280 191
Net investment result (external transactions)	35 796	152 716	135 820	32 414	(170 668)	1 754	1 356	1 887	(2 373)	(15 494)	173 208
Net investment result (cross-segment transactions)	-	-	-	-	1 106 983	-	-	-	-	-	1 106 983
	-	-	-	-	-	-	-	-	-	-	-
Other technical income net of reinsurance	5 062	38 390	218	5	-	-	-	-	1	-	43 676
Operating revenues of non-insurance companies	-	-	-	-	-	30 395	-	-	-	160 342	190 737
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	494	-	-	-	(7 057)	(6 563)
	-	-	-	-	-	-	-	-	-	-	-
Gross claims and benefits paid	(219 850)	(1 064 902)	(1 171 829)	(176 888)	-	-	(12 362)	(164 946)	(186 411)	-	(2 997 188)
Changes in provisions for outstanding claims and benefits (gross)	(88 109)	(41 933)	(4 628)	(9 067)	-	-	2 834	(17 960)	4 179	-	(154 684)
Reinsurers' share in claims and benefits paid	4 928	10 319	39	-	-	-	2 446	1 363	-	-	19 095
Reinsurer' share in change in provisions	(11 632)	4 479	-	-	-	-	(2 672)	9 954	-	-	129
Net claims	**(314 663)**	**(1 092 037)**	**(1 176 418)**	**(185 955)**	-	-	**(9 754)**	**(171 589)**	**(182 232)**	-	**(3 132 648)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	72 700	(93 184)	-	-	-	-	160 412	-	139 928
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(705)	(3)	(121)	-	-	-	-	-	(5)	-	(834)
Other technical charges – net of reinsurance	(9 791)	(73 919)	(23 033)	(1 964)	-	-	-	-	(216)	-	(108 923)
Interest expenses	-	-	-	-	-	-	(32)	(491)	-	(1 090)	(1 613)
Acquisition expenses	(68 274)	(337 007)	(88 248)	(34 767)	-	(728)	(10 718)	(53 693)	(2 488)	-	(595 922)
Administrative expenses	(30 264)	(155 896)	(137 477)	(14 458)	-	(9 305)	(5 289)	(41 744)	(2 047)	-	(396 481)
Reinsurance commission and share in profits	6 432	(2 061)	(18)	-	-	-	2 007	396	-	-	6 756
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(149 617)	(149 617)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(129)	-	-	-	(2 009)	(2 138)
Insurance result / Operating profit (loss)	**(7 777)**	**211 694**	**459 948**	**43 011**	**936 315**	**22 481**	**4 296**	**13 527**	**1 861**	**(14 925)**	**1 670 431**

(in PLN thousand)

Profit or loss account for the period from 1 January 2015 to 30 June 2015	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Segment total
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross written premiums - external	802 183	3 623 873	3 337 934	680 111	-	-	74 291	608 058	74 297	-	9 200 747
Gross written premiums - cross-segment	1 810	21 864	-	-	-	-	-	-	-	-	23 674
Gross written premiums	**803 993**	**3 645 737**	**3 337 934**	**680 111**	-	-	**74 291**	**608 058**	**74 297**	-	**9 224 421**
Reinsurers' share in gross written premium	(69 392)	(2 844)	809	4	-	-	(24 968)	(27 277)	-	-	(123 668)
Net written premiums	**734 601**	**3 642 893**	**3 338 743**	**680 115**	-	-	**49 323**	**580 781**	**74 297**	-	**9 100 753**
Changes in unearned premiums and unexpired risks reserves (gross)	19 864	(279 431)	(893)	913	-	-	(5 089)	(38 327)	(11)	-	(302 974)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	(32 351)	(27 812)	-	-	-	-	5 626	7 090	-	-	(47 447)
Net earned premiums	**722 114**	**3 335 650**	**3 337 850**	**681 028**	-	-	**49 860**	**549 544**	**74 286**	-	**8 750 332**
Investment income, including:	57 558	255 413	332 177	198 261	1 296 161	4 428	26 119	16 607	22 476	(14 892)	2 194 308
Net investment result (external transactions)	57 558	255 413	332 177	198 261	167 523	4 428	26 119	16 607	22 476	(14 892)	1 065 670
Net investment result (cross-segment transactions)	-	-	-	-	1 128 638	-	-	-	-	-	1 128 638
Other technical income net of reinsurance	13 503	80 976	571	5	-	-	-	-	-	-	95 055
Operating revenues of non-insurance companies	-	-	-	-	-	56 751	-	-	-	278 884	335 635
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	527	-	-	-	2 383	2 910
Gross claims and benefits paid	(438 937)	(2 098 718)	(2 397 805)	(373 177)	-	-	(49 436)	(352 502)	(404 087)	-	(6 114 662)
Changes in provisions for outstanding claims and benefits (gross)	(45 535)	20 381	(20 193)	(9 425)	-	-	2 985	(8 587)	2 252	-	(58 122)
Reinsurers' share in claims and benefits paid	11 451	18 156	74	-	-	-	4 017	9 905	-	-	43 603
Reinusrers' share in change in provisions	20 950	10 692	-	-	-	-	(3 309)	7 917	-	-	36 250
Net claims	**(452 071)**	**(2 049 489)**	**(2 417 924)**	**(382 602)**	-	-	**(45 743)**	**(343 267)**	**(401 835)**	-	**(6 092 931)**
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	(28 301)	(312 011)	-	-	-	-	316 844	-	(23 468)
Bonuses and rebates foe the insured net of reinsurance, including change in provisions	(1 335)	(839)	(161)	-	-	-	-	-	(8)	-	(2 343)
Other technical charges - net of reinsurance	(19 140)	(172 166)	(31 571)	(2 143)	-	-	-	-	(281)	-	(225 301)
Interest expenses							(64)	(802)		(1 969)	(2 835)
Acquisition costs	(130 508)	(659 439)	(180 934)	(65 782)	-	(1 468)	(20 696)	(128 087)	(5 116)	-	(1 192 030)
Administrative expenses	(62 857)	(318 125)	(284 303)	(30 466)	-	(20 623)	(9 372)	(78 143)	(4 562)	-	(808 451)
Reinsurance commission and share in profits	10 867	(1 811)	(154)	-	-	-	2 966	827	-	-	12 695
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(272 533)	(272 533)
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(140)	-	-	-	(7 412)	(7 552)
Insurance result / Operating profit (loss)	**138 131**	**470 170**	**727 250**	**86 290**	**1 296 161**	**39 475**	**3 070**	**16 679**	**1 804**	**(15 539)**	**2 763 491**

(in PLN thousand)

Reconciliation of the totals of segments and consolidated data	1 January–30 June 2016		1 January–30 June 2015	
	Net earned premium	Segment result	Net earned premium	Segment result
Segment total	9,004,809	2,200,326	8,750,332	2,763,491
Presentation of investment contracts	(60,781)	-	(74,286)	-
Equity instruments measurement	-	66,967	-	227,854
Property valuation	-	(14,663)	-	(20,556)
Equalization provision and prevention fund	-	(8,659)	-	(7,706)
Charges related to the Company's Social Fund and actuarial costs	-	(15,000)	-	(15,000)
Consolidation adjustments	41,390	(1,179,074)[1)]	67,867	(1,329,097)
Consolidated data	**8,985,418**	**1,049,897**	**8,743,913**	**1,618,986**

[1)] Consolidation adjustments result mostly from dividends paid between given segments and from different accounting standards that are applied to reporting given reporting segments (PAS and IFRS) and consolidated data (IFRS).

Geographical breakdown 1 January–30 June 2016 and as of 30 June 2016	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	9,172,338	584,897	106,061	(1,309)	9,861,987
Gross written premiums – cross-segment	28,649	-	-	(28,649)	-
Revenue from commissions and fees	391,002	-	-	-	391,002
Net investment income	1,885,846	7,281	10,188	-	1,903,315
Net result on realization and impairment losses on investments	(469,531)	(1,078)	160	-	(470,449)
Net change in the fair value of assets and liabilities measured at fair value	19,803	3,250	155	-	23,208
Non-current assets other than financial instruments [1)]	2,258,608	294,637	3,979	(360)	2,556,864
Deferred tax assets	442,339	-	2,082	-	444,947
Assets	112,096,715	1,950,774	261,545	(1,363,807)	112,945,227

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

Geographical breakdown 31 December 2015	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Non-current assets other than financial instruments [1)]	2,387,834	302,298	3,229	(405)	2,692,956
Deferred tax assets	365,930	-	1,145	2,370	369,445
Assets	104,706,348	1,825,890	217,201	(1,352,202)	105,397,237

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

(in PLN thousand)

1 January–30 June 2015 and as of 30 June 2015	Poland	Baltic states	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums – external	8,444,101	608,058	74,291	-	9,126,450
Gross written premiums – cross-segment	21,904	-	-	(21,904)	-
Revenue from commissions and fees	103,196	-	-	-	103,196
Net investment income	808,703	8,649	27,969	-	845,321
Net result on realization and impairment losses on investments	182,094	3,588	(2,740)	-	182,942
Net change in the fair value of assets and liabilities measured at fair value	52,449	4,370	891	-	57,710
Non-current assets other than financial instruments [1)]	1,424,565	344,687	3,184	(490)	1,771,946
Deferred tax assets	25,146	-	1,178	-	26,324
Assets	65,046,559	2,180,592	194,065	(1,341,482)	66,079,734

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

11. Issuances, redemptions and repayments of debt instruments and equity securities

In the period of 6 months ended on 30 June 2016, PZU did not perform issues, redemptions or payments concerning any debt instruments and equity securities.

Information about the issue of subordinated bonds by Alior Bank, a subsidiary of PZU, has been presented in point 7.26.1.

12. Non-payment or violation of the credit or loan terms

In the period of 6 months ended on 30 June 2016, neither PZU nor its subsidiaries experienced a situation in which a non-payment of credit or loan or an infringement of any relevant provisions of credit or loan agreement was not subjected to any corrective action performed until the end of the financial year.

13. Credit facility/loan collateral or guarantees granted by PZU or its subsidiaries

In the period of 6 months ended on 30 June 2016, neither PZU nor its subsidiaries granted a loan collateral or a guarantee – to one entity or its subsidiary in total – if the total value of existing collaterals or guarantees would be equal in value to at least 10% of the PZU equity, except for the transactions described below.

On 31 March 2016, PZU granted to its subsidiary (Alior Bank) a guarantee of unfunded insurance credit protection regarding the selected loan portfolio of Alior Bank. The unfunded credit protection mitigated Alior Bank's credit risk through imposing on PZU the commitment to pay a specified amount in the event of the default of the borrower or on the occurrence of other specified credit events.

The value of Alior Bank's claims portfolio covered by the guarantee amounted to PLN 3,104,240 thousand. After applying a 10% deductible of Alior Bank and limiting PZU's maximum amount of liability arising from a single credit claim to PLN 50,000 thousand, the guarantee granted by PZU amounted to PLN 2,548,856 thousand. On 1 July 2016, Alior Bank terminated the guarantee agreement.

14. Dividends

Only the profit disclosed in the separate financial statements of the parent entity, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

On 20 May 2016, the Management Board of PZU applied to the General Meeting of Shareholders of PZU with a proposal for distributing the net profit of PZU for the year ended 31 December 2015 in the amount of PLN 2,248,522 thousand in the following way:

- PLN 1,796,128 thousand, i.e. PLN 2,08 per share would be allocated for the payment of dividends;
- PLN 442,394 thousand would be allocated to the supplementary capital;
- PLN 10,000 thousand would be allocated to the Company's Social Benefits Fund.

On 30 June 2016, the General Meeting of Shareholders of PZU adopted a resolution, compliant with the request of the Management Board of PZU, on the distribution of PZU's net profit for the year ended 31 December 2015.

The dividend date was set for 30 September 2016, and the dividend payment date was set for 21 October 2016.

15. Litigation claims

The entities from PZU Group are parties in a number of court and arbitration disputes as well as administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts, and contractual obligations. The typical administrative proceedings involving PZU Group entities are those related to owned property. The proceedings and disputes are typical and repetitive, and in most cases none of them is significant for PZU Group.

Most disputes involving PZU Group entities pertain to three companies: PZU, PZU Życie and Alior Bank. In addition, PZU and PZU Życie participate in proceedings before the President of the Office of Competition and Consumer Protection (OCCP).

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavorable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities at PZU Życie are recognized in other technical provisions in the amount of annual annuity in excess of the corresponding provision amount as determined in mathematical provisions for life insurance.

In the period of 6 months ended on 30 June 2016 and by the date of submission of the consolidated financial statements, PZU Group entities did not take part in any proceedings before court, competent authority for arbitration proceedings or public administration authority concerning liabilities or debt of PZU or its direct or indirect subsidiary of singular value amounting to at least 10% of the PZU equity.

As at 30 June 2016, the total value of all 129,917 cases heard by courts, competent authorities for arbitration proceedings or public administration authorities involving the PZU Group entities amounted to PLN 4,861,716 thousand. The amount includes PLN 3,245,382 thousand of liabilities and PLN 1,616,334 thousand of debt of PZU Group entities, which accounted for 29.13% and 14,51% of the PZU equity respectively, calculated in line with PAS.

All information available at the date of signing the condensed interim consolidated financial statements has been taken into account regarding estimations of provisions; however, that value may be subject to change in the future.

15.1 Resolution of the General Meeting of Shareholders of PZU regarding 2006 profit distribution

On 30 July 2007, a lawsuit was filed by Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancellation of the General Meeting of Shareholders of PZU's Resolution No. 8/2007 of 30 June 2007 on distribution of PZUs' profit for 2006 as non-compliant with best practices and acting to the detriment of the plaintiff, a shareholder of PZU.

The contested resolution of the General Meeting of Shareholders of PZU distributed the 2006 profit of PLN 3,280,883 thousand in the following manner:

- PLN 3,260,883 thousand to the supplementary capital;
- PLN 20,000 thousand to the Social Benefits Fund.

Through its ruling, on 22 January 2010, the District Court in Warsaw cancelled the aforementioned resolution. PZU appealed against the judgment in its entirety, including final appeal to the Supreme Court with respect to the aforementioned decision, which dismissed the cassation complaint on 27 March 2013. The judgment is final and non-appealable.

PZU believes that cancelation of the above GMS resolution does not give rise to shareholders' claim for dividend.

Following the decision cancelling resolution No. 8/2007 becoming effective, the agenda of the PZU GMS of 30 May 2012 included a point regarding distribution of profit for 2006 in a manner corresponding to the cancelled resolution No. 8/2007. Manchester Securities Corporation objected to the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of the lawsuit filed by MSC with the District Court in Warsaw, which stated that said company sought the cancellation of the resolution of the General Meeting of Shareholders of PZU dated 30 May 2012 on the distribution of profit for 2006, and the value of the subject of dispute was determined by the plaintiff at the amount of PLN 5,054 thousand. PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in their entirety and the costs of the proceedings were awarded from PZU to MSC. On 4 March 2014, PZU appealed against the judgment in its entirety. On 11 February 2015, the Appellate Court in Warsaw passed a judgment that changed the judgment of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgment of the Appellate Court is final and non-appealable. MSC filed a cassation appeal on 9 June 2015 against the judgment of the Appellate Court in its entirety. PZU filed its response to the cassation appeal. With the decision issued on 19 April 2016, the Supreme Court refused to accept the cassation appeal of MSC for consideration. The decision is final, no further appeal may lie on the order of the provisions of the Code of Civil Procedure and it ends the legal proceedings concerning the matter.

Meanwhile, on 16 December 2014, MSC called PZU to pay PLN 264,865 thousand of compensation due to the cancellation of the resolution No. 8/2007 of the General Meeting of Shareholders of PZU dated 30 June 2007 on the distribution of profit of PZU for 2006. PZU declined to fulfil the obligation because the obligation was not valid.

On 23 September 2015, PZU received a copy of a motion with attachments regarding the action initiated by MSC against PZU for the payment of PLN 169,328 thousand with statutory interest accrued from 2 January 2015 until the date of the payment. The action includes a claim for compensation for the deprivation of MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan), as minority shareholders of PZU, a share in the profit for the year 2006, in connection with a Resolution No. 8/2007 adopted by the General Meeting of Shareholders of PZU on 30 June 2007. The case is being handled by the District Court in Warsaw, XX Business Division. On 18 December 2015, PZU filed its response to the lawsuit seeking the dismissal of the lawsuit in its entirety. On 1 April 2016, MSC filed a pleading in which it addressed the claims, charges and motions of PZU and provided further evidence in the case. On 30 June 2016, PZU replied to the last pleading of MSC and provided evidence motions. With the decision issued on 21 July 2016, the Court referred the case to mediation, on which PZU did not grant consent.

According to the Management Board, MSC's claims are unfounded. As a result, as at 30 June 2016, no changes in the presentation of PZU capitals were made that may result from cancellation of the Resolution No. 8/2007 of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)". Moreover, the funds appropriated to the Company's Social Benefits Fund were not adjusted.

15.1.1. Other demands for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU declined to fulfil the obligation because the obligation was not valid.

Apart from the above mentioned documents, the shareholders or the former shareholders or their successors in title presented PZU with a request for payment based on the facts presented above. The parties requesting the payment did not indicate specific amounts, but a number of shares, or simply request the payment. PZU submitted a response in writing indicating that such claims did not exist and they would not be taken into account.

15.1.2. Other legal proceedings concerning the distribution of profit of PZU for 2006

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56,281 thousand. At the hearing on 19 February 2015, PZU refused to conclude a settlement.

PZU received other copies of motions to summon a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

7 legal actions were initiated against PZU for the payment of dividends or compensation. PZU consistently responds to such requests demanding their cancellation in their entirety. In six cases, the District Courts in Warsaw dismissed the claims in their entirety (in five cases the judgments are final, in one case the claimant appealed against the decision). In one case, the District Court discontinued the proceedings due to the withdrawal of the claim (the decision is final).

15.2 Proceedings conducted by the President of the Office of Competition and Consumer Protection ("OCCP") against PZU

15.2.1. Reimbursement of the costs of rental of a replacement car

In a decision of 18 November 2011, the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 11,287 thousand for the use of practices that infringe the collective interest of consumers, as described in Article 24.1 and 24.2 of the Act on competition and consumer protection (Journal of Laws No. 50 of 2007, item. 331, as amended) consisting in limitation of the scope of liability of PZU towards consumers that submit claims under the insurers' guarantee liability due to compulsory civil liability insurance of an owner of a motor vehicle by:

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;
- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU did not agree with the decision and its legal and factual statement of reasons. On 5 December 2011, PZU appealed against the decision (thus the decision did not become valid).

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue regarding a different case pending before the Appellate Court. After the settlement, the Appellate Court resumed the proceedings and closed the case during its session of 26 January 2016. By judgment of 1 February 2016, the Appellate Court allowed the appeal of PZU and changed the decision of the District Court in Warsaw in its entirety, annulling the decision of the President of the OCCP of 18 November 2011 in its entirety, and adjudged the return of proceeding's expenses by the President of the OCCP in favor of PZU. The judgment of the Appellate Court is final and non-appealable. On 27 July 2016, PZU received the judgment of the Appellate Court and the substantiation – the President of the OCCP received the judgment and the substantiation on 25 July 2016. The judgment may be challenger with a cassation appeal to the Supreme Court.

In the light of the above, as at 30 June 2016, there is no need to maintain the provision related to the case, and the provision created in the previous years was released in full (in the amount of PLN 11,287 thousand) in 2015.

15.2.2. Sale of a group accident insurance

In a decision of 30 December 2011, the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in

Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the customers of PZU in the Kujawsko-Pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those customers. The Office demanded that the practices be discontinued.

The Management Board of PZU refuses to agree with the facts and legal reasons presented in the decision, because the decision does not consider all the evidence and the legal classification was incorrect.

On 18 January 2012, PZU appealed against the decision (thus the decision did not become valid). In the appeal PZU pointed that:

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;
- majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of the President of the OCCP to its appeal. On 27 March 2015, the CCCP issued a judgment overruling the decision of the President of the OCCP of 30 December 2011. On 21 May 2015, the President of the OCCP filed an appeal. On 24 June 2015, PZU filed its response to the appeal of the President of the OCCP. The date of the hearing before the Appellate Court in Warsaw was set for 22 September 2016. During the hearing the appeal of the President of the OCCP will be taken into consideration.

PZU recognized a provision for the above fine, whose amount both as at 30 June 2016 and 31 December 2015 was PLN 56,605 thousand.

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

On 1 June 2005, at the request of several petitioners the President of the OCCP instituted anti-monopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might have constituted a breach of the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of the OCCP imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant. PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of the OCCP.

After several years of proceedings, in a ruling of 17 February 2011 the CCCP partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

On 9 May 2013, the Appellate Court in Warsaw admitted the charges filed by PZU Życie and reversed the judgment of the CCCP on grounds of nullity of legal proceedings, cancelled the proceedings to the extent that they were null and remanded the matter for a new trial before the CCCP.

As a result of further proceedings, in the judgment of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014, PZU Życie appealed against the judgment of the CCCP of 28 March 2014 pertaining to the judgment in its entirety. On 17 September 2015, the Appellate Court dismissed PZU Życie's appeal in its entirety and adjudged the return of proceeding's expenses by PZU Życie. The judgment is final and non-appealable. PZU Życie paid the imposed fee in the amount of PLN 50,384 thousand and the costs it was charged with. PZU Życie received the judgment and the substantiation on 20 January 2016. 18 March 2016, PZU Życie filed a cassation appeal to the Supreme Court against the aforementioned judgment. On 10 May 2016, PZU received a reply of the President of the OCCP to the cassation appeal of PZU Życie dated 18 March 2016. On 24 May 2016, PZU Życie replied to the reply of the President of the OCCP.

As at both 30 June 2016 and 31 December 2015, there was no need to maintain any provisions related to the matter.

15.4 Dispute with CSC Computer Sciences Polska Sp. z o.o.

On 9 April 2010, the Arbitration Court served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. ("CSC") which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment. The amount sought by CSC included, among others, the claims related to license fees, implementation works, support and maintenance services, contractual penalties and capitalized interests.

On 31 May 2010, PZU Życie requested that the Arbitration Court dismiss some claims as time inappropriate and dismiss the lawsuit in its entirety. PZU Życie also filed a counter suit against CSC, demanding payment of PLN 71,890 thousand as a return of the remuneration collected by CSC or as damages for undue performance of obligations. On 31 August 2010, CSC motioned for dismissal of the entire claim of PZU Życie indicating absence of evidence to consider it.

After the proceedings before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, on 18 December 2012, the court issued a judgement ("Judgement of the Arbitration Court 108/10") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and discontinued the proceedings concerning the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the claim date. Furthermore, the Arbitration Court dismissed the remainder of the principal action and dismissed the PZU Życie mutual claim.

As a result of the final termination of the proceedings concerning the statement of enforceability of the Judgment of the Arbitration Court 108/10, on 9 July 2015, PZU Życie paid PLN 17,392 thousand. On 20 August 2015, PZU Życie filed a cassation appeal to the Supreme Court against the Judgement of the Arbitration Court 108/10 in its entirety. CSC replied to the cassation appeal. No significant events have taken place by the date of submission of the consolidated financial statements.

15.5 Submission of PZU claims to the insolvency estate of PBG Capital Group companies

PZU is the creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both located in Wysogotowo near Poznań, for the issued and executed insurance guarantees (contractual guarantees).

In 2012, bankruptcy proceedings were initiated against PBG and Hydrobudowa. On 21 September 2012, PZU joined the above proceedings submitting its claims to the insolvency estate of both companies.

PBG and Hydrobudowa belong to the same capital group with PBG as the parent entity. They granted sureties to each other. All claims submitted to the insolvency estate of Hydrobudowa in the amount of PLN 100,996 thousand have been therefore submitted in relation to the insolvency estate of PBG as well.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of liabilities. As at 30 June 2016 , the sureties amount to PLN 98,830 thousand (as at 31 December 2015: PLN 102,164 thousand) and their reduction is due to the expiration of a part of guarantees to which no claims were reported. Due to the fact that the receivable is highly unlikely to be redeemed, the amount was not recognized in the financial statements. At the creditors' meeting of 5 August 2015, PZU voted in favor of an agreement, and on 25 August 2015, the judge-commissioner confirmed the voting results and the conclusion of the agreement. On 8 October 2015, the bankruptcy court announced its decision, in which it approved the agreement concluded with the creditors. The decision is final. When the agreement is realized, PZU will receive 21% of the claim in the form of cash payments, in accordance with the schedule agreed upon in the agreement proposals, and in a non-cash form, involving a conversion of 0.491927% of the debt for an issue of new shares. On 28 June 2016, PBG paid PLN 83 thousand related to the matter. On 20 July 2016, the bankruptcy court issued a decision ending the bankruptcy proceedings. The decision is not final.

16. Other information

16.1 Related party transactions

16.1.1. Relevant related party transactions concluded by PZU or its subsidiaries on terms and conditions other than market terms and conditions

In the period of 6 months ended on 30 June 2016, neither PZU nor its subsidiaries concluded one or more related party transactions, providing the transactions were relevant on their own or in total and that they were concluded on terms and conditions other than market terms and conditions, except for the transactions described below.

Based on the framework agreement signed on 7 August 2013 between PZU and PZU Życie, cash loans denominated in PLN are granted between these companies for a definite period not longer than 12 months. The sum of loans granted by each party cannot exceed PLN 1 billion. The aim of the abovementioned agreement is providing a tool for managing fluidity in PZU Group. The loans are not granted on market terms and conditions – the amount of the loan is interest-free and the debtor receives commission on granting a loan in the amount of PLN 100 for each concluded loan agreement – however, due to the participation of both companies in TCG, they are tax neutral. In the period of 6 months ended on 30 June 2016, PZU Życie granted two such loans:

- on 27 May 2016, in the amount of PLN 400,000 thousand, which was paid on 24 June 2016;
- on 24 June 2016, in the amount of PLN 350,000 thousand, which was paid on 25 July 2016.

(in PLN thousand)

16.1.2. Turnovers and balances of related party transactions

Balances and turnovers of transactions between PZU Group and related parties	1 January–30 June 2016 and as of 30 June 2016		1 January–31 December 2015 and as at 31 December 2015		1 January–30 June 2015 and as of 30 June 2015	
	Key managers of main units [1]	Other related parties [2]	Key managers of main units [1]	Other related parties [2]	Key managers of main units [1]	Other related parties [2]
Gross written premium						
in property and personal insurance	-	1,468	-	3,188	-	1,606
in life insurance (including investment contracts)	-	-	-	-	-	-
Other revenue	-	1	-	3	-	2
Costs	-	12	-	11	-	11
Including impairment losses on receivables recognized in current period	-	-	-	-	-	-
Receivables	-	25	-	50	-	14
gross value	-	25	-	50	-	14
impairment losses	-	-	-	-	-	-
net value	-	25	-	50	-	14
Liabilities	-	3	-	4	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

[1] High level management, data as per statements.
[2] Non-consolidated companies in liquidation, as well as associates measured with the equity method.

16.2 Acquisition of Bank BPH

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

The Sale of Shares and Division Agreement covers:

- acquisition by Alior Bank the shares constituting a significant share in Bank BPH SA ("Bank BPH") from the Sellers of Bank BPH;
- division of Bank BPH, which is pursuant to Article 529 §1 point 4 of the Code of Commercial Companies, performed through transferring the core activity of Bank BPH to Alior Bank ("the Division") and issue of new Alior Bank shares for the Bank BPH shareholders indicated in the plan of the division (i.e. excluding Alior Bank and the Sellers of Bank BPH and their related parties).

Alior Bank shall purchase the core activity of Bank BPH ("the Core Activity of Bank BPH"), which will become an organized part of the business comprising all assets and liabilities of Bank BPH, except for the assets and liabilities which will remain with Bank BPH after the division, being the mortgage activity of Bank BPH.

The acquisition of Bank BPH shares by Alior Bank shall be realized through public call to subscribe for sale of all other Bank BPH shares or shares representing 66% of Bank BPH share capital ("the Call"). Alior Bank is obligated to perform the Call after meeting the conditions of the Sale of Shares and Division Agreement. However, Alior Bank has the right to perform the Call before meeting these conditions. The exact number of shares which will be sold to Alior Bank by the Sellers of Bank BPH shall be determined through the division of the amount of payment due to the Sellers of Bank BPH for their share in the Core Activity of Bank BPH by the share price included in the Call.

The price for 87.23% share in the Core Activity of Bank BPH owned by the Sellers of Bank BPH is PLN 1,225 million, subject to adjustments. In the current report of 2 August 2016, Alior Bank informed about determining the adjusted acquisition price of the Core Activity of Bank BPH in the amount of PLN 1,159,645 thousand. The price was determined based on the carrying amount of the net tangible assets of the Core Activity of Bank BPH as at 30 June 2016 and may be further adjusted, depending on the adjusted carrying amount of the tangible assets of the Core Activity of Bank BPH as at the date of registering by the registry court the increase in Alior Bank share capital in relation to the division of Bank BPH, and hence after the end of the call to place a subscription for sale of 50,600,821 Bank BPH announced by Alior Bank.

The transaction will be financed with the public issue of the new Alior Bank shares for the current shareholders, with the observance of pre-emptive right.

The realization of the transaction will be conditional upon the fulfilment of the following conditions precedent:

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

On 29 April 2016, the plan of the division was agreed on and signed, and on 5 May 2016, a resolution concerning the increase in Alior Bank share capital was adopted. According to the Sale of Shares and Division Agreement, the remaining conditions have to be fulfilled until 1 November 2016.

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

Between 1 and 16 August 2016, subscribing to the sale of Bank BPH shares took place as part of the call announced by Alior Bank. Forecasted date of the settlement of the transactions is 24 August 2016. On 8 August 2016, the condition of the Call concerning the inclusion of at least 37,180,026 Bank BPH shares, entitling to at least 48.49% of the total number of votes at the General Meeting of Shareholders of Bank BPH, in the subscriptions resulting from the Call was fulfilled ("Condition on the Minimum Number of Shares"). Fulfilling the Condition on the Minimum Number of Shares means that all conditions of the Call have been fulfilled. The Condition on the Minimum Number of Shares has been fulfilled as a result of placing the subscriptions for the sale of Bank BPH shares by GE Investments Poland sp. z o.o. and DRB Holdings B.V. as a part of the execution of the Sale of Shares and Division Agreement. The subscriptions have been placed after the fulfillment of the last condition of the Sale of Shares and Division Agreement, relating to obtaining all consents of PFSA described in the Sale of Shares and Division Agreement, while taking into account changes in this scope based on an annex to the Sale of Shares and Division Agreement from 8 August 2016.

In the period between the end of the Call and the earlier one of the following dates: (i) the Division Date or (ii) the date which falls six months after ending the Call ("Transitional Period"), Alior Bank committed not to execute any rights arising from Bank BPH shares without prior consent of the Sellers of Bank BPH expressed in writing, with reservation of the exceptions provided by the Sale of Shares and Division Agreement. In the Transitional Period, the Sellers of Bank BPH shall remain the referential shareholders of Bank BPH.

As at 30 June 2016, PZU Group did not excercise control over Bank BPH, in relation to which it has not been subjected to consolidation in the interim condensed consolidated financial statements.

Declaration of support issued by PZU

On 31 March 2016, PZU issued a declaration of support ("Declaration of Support") for the Sellers of Bank BPH, under which, with reservation of all regulatory requirements or demands of PFSA, PZU committed i.a. to:

- vote for all Alior Bank shares owned directly by PZU on the date of issue of the Declaration of Support (i.e. 25.19% of Alior Bank share capital) or on the date of the General Meeting of Shareholders of Alior Bank held in relation to the transaction (depending on which amount is higher) in favor of the adoption of resolutions concerning increase in the capital and approval of the Division by the General Meeting of Shareholders mentioned above;
- place subscription and pay for the new Alior Bank shares in proportion with the current share of PZU in Alior Bank share capital, whereas PZU shall not be in any case obliged to place subscription and acquire shares which in total with the current share of PZU in Alior Bank (including related parties whose shares in Alior Bank are attributable to PZU in line with appropriate regulations concerning significant packages of shares in public companies) would constitute more than 33% of the total number of shares or votes in Alior Bank; and
- deploy all the efforts in order to obtain at the time in accordance with the Sale of Shares and Division Agreement all the regulatory consents (if necessary) required from PZU for closing the transaction by the Alior Bank.

In addition, PZU committed not to perform sales or other disposals concerning Alior Bank shares owned directly by PZU at the date of issuing the Declaration of Support without the consent of the Sellers of Bank BPH given in the period after the issuance of the Declaration of Support.

16.3 Inspections of the Polish Financial Supervision Authority in PZU

During the period between 17 April and 17 June 2015, the Polish Financial Supervision Authority conducted an inspection at PZU in the scope of the use of services of insurance agents.

On 12 January 2016, PZU received the report of the inspection, which raised objections on 27 January 2016. According to the Management Board of PZU, the results of the inspection will not influence the consolidated financial statement.

In the period between 14 April and 19 May 2016, the inspection concerning the activity and assets of the company in scope of claims handling took place.

On 13 July 2016, PZU received the report of the inspection, which raised objections on 27 July 2016.

16.4 Situation in Ukraine

Despite the unstable political and economic situation of Ukraine, PZU Ukraine and PZU Ukraine Life Insurance, by diversifying their portfolios and sales channels, are more flexible to market changes and implement their sales plans for 2016.

The Management Board of PZU, in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance, carries out constant monitoring of external risks and changes in the Ukrainian regulations. PZU developed scenarios and control mechanisms to respond to market changes in Ukraine. The company does not intend to withdraw its operations from the Ukrainian market. As at the date of submission of the consolidated financial statements, the Management Board of PZU assumes that the further activity of PZU Ukraine and PZU Ukraine Life Insurance will be continued in accordance with the approved objectives; however, the unstable business environment of Ukraine could negatively affect in the future the results and financial standing of PZU Ukraine and PZU Ukraine Life Insurance in a manner not currently determinable. Condensed interim consolidated financial statements reflect the current assessment of the Management Board of PZU in this respect.

Signatures of Members of the Management Board of PZU:

Name and surname	Position	
Michał Krupiński	President of the Management Board	.... (signature)
Roger Hodgkiss	Member of the Management Board	.... (signature)
Andrzej Jaworski	Member of the Management Board	.... (signature)
Sebastian Klimek	Member of the Management Board	.... (signature)
Beata Kozłowska-Chyła	Member of the Management Board	.... (signature)
Maciej Rapkiewicz	Member of the Management Board	.... (signature)

Person responsible for preparation of the condensed interim consolidated financial statements:

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

Warsaw, 23 August 2016