Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group

Condensed interim
consolidated financial statements
for Q1 2016

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Introduction

Compliance statement

These condensed interim consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group ("condensed interim consolidated financial statements" and "PZU Group", respectively) have been prepared in line with the International Financial Reporting Standards as endorsed by the Commission of European Communities ("IFRS"), published and in force as at 31 March 2016, including the requirements of International Accounting Standard 34 "Interim Financial Reporting" and the requirements of the Regulation on Current and Periodic Information.

PZU Group companies keep their ledgers in accordance with the accounting standards adopted in the country of the registered office of each company:

- in Poland – according to PAS (Polish accounting standards), with the exception of the Alior Bank Group, the Armatura Group and CM Medica that keep their ledgers according to IFRS;
- abroad – according to IFRS.

These consolidated financial statements contain adjustments to bring the financial data of these companies into conformity with IFRS.

Parent company's quarterly standalone financial information

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

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

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

- Finance Minister's Regulation of 12 April 2016 on the special accounting principles for insurance and reinsurance undertakings (Journal of Laws of 2016, Item 562);
- Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and presentation of financial instruments (Journal of Laws of 2001, Item 1674, as amended).

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

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements cover the period of 3 months from 1 January to 31 March 2016.

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

Functional and presentation currency

PZU's functional and presentation currency is the Polish zloty. The Ukrainian hrivna is the functional currency of the companies domiciled in Ukraine while the Euro is the functional currency of the companies domiciled in Lithuania, Latvia and Sweden.

Unless noted otherwise, all amounts presented in these condensed interim consolidated financial statements are stated in thousands of Polish zloty.

FX rates

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

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

Currency	1 January – 31 March 2016	1 January – 31 December 2015	1 January – 31 March 2015	31 March 2016	31 December 2015	31 March 2015
Euro	4.3559	4.1848	4.1489	4.2684	4.2615	4.0890
Ukrainian hrivna	0.1500	0.1722	0.1700	0.1436	0.1622	0.1623

Going concern assumption

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

Discontinued operations

In the period of 3 months ended 31 March 2016, the PZU Group companies did not discontinue any material type of activity.

Seasonal or cyclical business

Activity of the PZU Group is not seasonal and is not subject to business cycles to an extent that would justify application of the suggestion included in Clause 21 of IAS 34.

Glossary

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

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

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

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.

Others definitions

BFG – Bank Guarantee Fund

MCBRMOD – main corporate body responsible for making operating decisions within the meaning of IFRS – Operating segments.

IBNR – Incurred But Not Reported or provision II.

PZU standalone financial statements for 2015 – annual standalone financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2015 prepared according to PAS, signed by the PZU Management Board on 14 March 2016.

KNF – Polish Financial Supervision Authority.

IFRS – International Financial Reporting Standards as endorsed by the Commission of European Communities ("IFRS"), published and in force as at 31 March 2016.

TG – Tax Group established pursuant to the agreement signed on 25 September 2014 by 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 and Omicron Bis SA. The Tax Group has been established for a period of 3 years – from 1 January 2015 to 31 December 2017. PZU is the parent company representing the Tax Group.

PAS – Accounting Act of 29 September 1994 (consolidated text, Journal of Laws of 2013, item 330 as later amended) and the regulations issued on its basis.

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

Regulation on current and periodic information – Finance Minister's Regulation of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (consolidated text, Journal of Laws of 2014, item 133).

Consolidated financial statements – PZU Group's consolidated financial statements for the year ended 31 December 2015 according to IFRS.

UKNF – Office of the Polish Financial Supervision Authority.

Insurance Activity Act – Insurance and Reinsurance Activity Act of 11 September 2015 (Journal of Laws of 2015, item 1844).

Act on Taxing Financial Institutions – Act on Taxing Some Financial Institutions of 15 January 2016 (Journal of Laws of 2016, item 68).

ZUS – Social Security Company.

Financial highlights

1. Selected consolidated financial data of the PZU Group

Data from the consolidated statement of financial position	PLN 000s 31 March 2016	PLN 000s 31 December 2015	PLN 000s 31 March 2015	EUR 000s 31 March 2016	EUR 000s 31 December 2015	EUR 000s 31 March 2015
Assets	108,295,077	105,429,009	71,741,982	25,371,352	24,739,882	17,545,117
Share capital	86,352	86,352	86,352	20,231	20,263	21,118
Equity attributable to equity holders of the Parent	13,394,529	12,923,719	14,083,247	3,138,068	3,032,669	3,444,179
Non-controlling interest	2,310,277	2,255,188	1,213	541,251	529,201	297
Total equity	15,704,806	15,178,907	14,084,460	3,679,319	3,561,870	3,444,475
Basic and diluted weighted average number of ordinary shares	863,489,477	863,523,000	863,519,490 [1)]	863,489,477	863,523,000	863,519,490 [1)]
Book value per ordinary share (in PLN/EUR)	15.51	14.97	16.31	3.63	3.51	3.99

[1)] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

Data from the consolidated profit and loss account	PLN 000s 1 January – 31 March 2016	PLN 000s 1 January – 31 March 2015	EUR 000s 1 January – 31 March 2016	EUR 000s 1 January – 31 March 2015
Gross written premium	4,800,604	4,680,827	1,102,092	1,128,209
Net earned premium	4,316,926	4,307,040	991,053	1,038,116
Revenue from commissions and fees	184,924	48,444	42,454	11,676
Net investment profit	1,031,328	1,024,342	236,766	246,895
Net insurance claims	(3,066,628)	(3,045,858)	(704,017)	(734,136)
Profit before tax	687,799	1,154,205	157,901	278,195
Net profit attributed to holders of the parent company's equity	486,598	941,332	111,710	226,887
Profit (loss) attributed to holders of non-controlling interest	49,858	8	11,446	2
Basic and diluted weighted average number of ordinary shares	863,489,477	863,519,490 [1)]	863,489,477	863,519,490 [1)]
Basic and diluted earnings per ordinary share (in PLN/EUR)	0.56	1.09	0.13	0.26

[1)] Comparable data have been restated incorporating the new number of shares after completing PZU's share split.

Data from the consolidated cash flow statement	PLN 000s 1 January – 31 March 2016	PLN 000s 1 January – 31 March 2015	EUR 000s 1 January – 31 March 2016	EUR 000s 1 January – 31 March 2015
Net cash flow on operating activity	(187,171)	549,789	(42,970)	132,514
Net cash flow on investing activity	1,542,423	(1,642,182)	354,100	(395,811)
Net cash flow on financing activity	(2,068,115)	1,269,852	(474,785)	306,070
Total net cash flow	(712,863)	177,459	(163,655)	42,773

2. Selected individual financial data of PZU (PAS)

Balance sheet data	PLN 000s 31 March 2016	PLN 000s 31 December 2015	PLN 000s 31 March 2015	EUR 000s 31 March 2016	EUR 000s 31 December 2015	EUR 000s 31 March 2015
Assets	37,189,986	36,358,361	34,752,886	8,712,863	8,531,822	8,499,116
Share capital	86,352	86,352	86,352	20,231	20,263	21,118
Total equity	12,817,127	12,378,733	13,203,846	3,002,794	2,904,783	3,229,114
Weighted average basic and diluted number of ordinary shares	863,523,000	863,523,000	863,523,000 [1)]	863,523,000	863,523,000	863,523,000 [1)]
Book value per ordinary share (in PLN/EUR)	14.84	14.34	15.29	3.48	3.37	3.74

[1)] Comparable data have been restated incorporating the new number of shares after completing PZU's share split.

Data from the technical non-life insurance account and the non-technical profit and loss account	PLN 000s 1 January – 31 March 2016	PLN 000s 1 January – 31 March 2015	EUR 000s 1 January – 31 March 2016	EUR 000s 1 January – 31 March 2015
Gross written premium	2,714,054	2,229,893	623,075	537,466
Technical result on non-life insurance	90,239	355,676	20,716	85,728
Net investment result [1)]	103,404	(79,593)	23,739	(19,184)
Net profit	36,861	232,002	8,462	55,919
Basic and diluted weighted average number of ordinary shares	863,523,000	863,523,000 [2)]	863,523,000	863,523,000 [2)]
Basic and diluted earnings per ordinary share (in PLN/EUR)	0.04	0.27	0.01	0.07

[1)] Including the item "Share of the net profit (loss) of subordinated entities measured by the equity method".
[2)] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

3. Selected non-consolidated financial data of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna (PAS)

Data from the balance sheet	PLN 000s 31 March 2016	PLN 000s 31 December 2015	PLN 000s 31 March 2015	EUR 000s 31 March 2016	EUR 000s 31 December 2015	EUR 000s 31 March 2015
Assets	28,263,325	27,956,769	30,269,383	6,621,527	6,560,312	7,402,637
Total equity	4,555,599	4,253,553	4,711,680	1,067,285	998,135	1,152,282

Data from the technical life insurance account and the non-technical profit and loss account	PLN 000s 1 January – 31 March 2016	PLN 000s 1 January – 31 March 2015	EUR 000s 1 January – 31 March 2016	EUR 000s 1 January – 31 March 2015
Gross written premium	1,982,762	2,043,366	455,190	492,508
Technical life insurance result	398,699	377,247	91,531	90,927
Net investment profit	250,625	579,217	57,537	139,607
Net profit (loss)	308,885	441,001	70,912	106,293

4. Summary of consolidated financial results

The net financial result of the PZU Group for the period of 3 months ended 31 March 2016 was PLN 536,456 thousand, down by 43.0% from the net result in the corresponding period of the previous year. The net profit attributable to parent company shareholders was PLN 486,598 thousand, compared to PLN 941,332 thousand in 2015 (down 48.3%).

Excluding one-off events[1], the net result fell 24.0% compared to the previous year.

ROE attributable to the parent company (PZU) for the period from 1 January to 31 March 2016 was 14.8%, signifying a decline of 12.8 p.p. compared to the same period of the previous year.

The following factors also affected PZU Group's activity in the 3 month period ended 31 March 2016, as compared to the corresponding period of the previous year:

- higher gross written premium in motor insurance in the mass and corporate segments as a result of the upswing in average premium;
- higher profitability in the segment of group and individually continued insurance associated mainly with a lower loss ratio of protection products due to a lower incidence of deaths;
- decline in profitability in the mass insurance segment associated mainly with an increase in the loss ratio in agricultural insurance as a result of the occurrence of numerous claims caused by the forces of nature (adverse effects of ground frost);
- lower income from investing activity (net of banking activity), in particular due to a decrease in the valuation of equity instruments.

The commencement of consolidating Alior Bank in December 2015 materially affected the comparability of the results and total assets and equity and liabilities year on year. As a result of this transaction the balance sheet value rose by roughly PLN 42 billion while non-controlling interests increased by PLN 2.3 billion (as at 31 March 2016).

[1] Non-recurring events include the conversion effect of converting long-term policies into yearly renewable term agreements in type P group insurance and the claims in agricultural insurance that were higher than the average of the last 3 years.

(in thousands of PLN)

Interim consolidated financial statements

1. Interim consolidated profit and loss account

Consolidated profit and loss account	Note	1 January – 31 March 2016	1 January – 31 March 2015 (restated) [1)]
Gross written premium	8.1	4,800,604	4,680,827
Reinsurers' share in gross written insurance premium		(53,899)	(53,899)
Net written premium		**4,746,705**	**4,611,297**
Change in net provision for unearned premiums		(429,779)	(304,257)
Net earned premium		**4,316,926**	**4,307,040**
Revenue from commissions and fees	8.2	184,924	48,444
Net investment income	8.3	967,732	446,550
Net result on the realization of investments and impairment charges	8.4	(90,742)	117,784
Net movement in the fair value of assets and liabilities measured at fair value	8.5	154,338	460,008
Other operating income	8.6	204,083	166,740
Claims and change in technical provisions		(3,096,455)	(3,107,535)
Reinsurers' share in claims and change in technical provisions		29,827	61,677
Net insurance claims	**8.7**	**(3,066,628)**	**(3,045,858)**
Fee and commission expense	8.8	(51,506)	-
Interest expense	8.9	(274,321)	(35,427)
Acquisition costs	8.10	(617,310)	(553,106)
Administrative expenses	8.10	(619,500)	(408,016)
Other operating expenses	8.11	(419,775)	(350,137)
Operating profit		**688,221**	**1,154,022**
Share of the net financial results of entities measured by the equity method		(422)	183
Profit before tax		**687,799**	**1,154,205**
Income tax		(151,343)	(212,865)
- current part		(59,749)	(257,925)
- deferred part		(91,594)	45,060
Net profit, including:		**536,456**	**941,340**
- profit attributable to the equity holders of the Parent Company		486,598	941,332
- profit (loss) attributed to holders of non-controlling interest		49,858	8

[1)] Information on the reasons for transforming the data and the impact exerted on the consolidated profit and loss account is presented in item 4.2.

(in thousands of PLN)

Consolidated Interim Profit And Loss Account (cont.)

Consolidated profit and loss account	Note	1 January – 31 March 2016	1 January – 31 March 2015 (restated) [1]
Net profit on continuing operations attributed to equity holders of the parent company		486,598	941,332
Net profit (loss) on discontinued operations		-	-
Weighted average basic and diluted number of ordinary shares	8.12	863,489,477	863,519,490 [2]
Basic and diluted profit (loss) per ordinary share (in PLN)	8.12	0.56	1.09

[1] Information on the reasons for transforming the data and the impact exerted on the consolidated profit and loss account is presented in item 4.2.

[2] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

(in thousands of PLN)

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 March 2016	1 January – 31 March 2015
Net profit		536,456	941,340
Other comprehensive income	8.13	(9,366)	(24,423)
Subject to subsequent transfer to profit or loss		(9,489)	(24,727)
Measurement of financial instruments available for sale		(7,387)	28,954
Exchange differences from translation		(406)	(53,681)
Net cash flow hedges		(1,696)	-
Not to be reclassified to profit or loss in the future		123	304
Reclassification of real property from property, plant and equipment to investment property		123	304
Total net comprehensive income		**527,090**	**916,917**
- comprehensive income attributable to equity holders of the Parent Company		472,001	916,930
- comprehensive income attributed to holders of non-controlling interest		55,089	(13)

(in thousands of PLN)

3. Interim consolidated statement of financial position

Assets	Note	31 March 2016	31 December 2015	31 March 2015 (restated) [1)]	1 January 2015 (restated) [1)]
Goodwill	8.14	1,511,782	1,506,445	748,205	769,044
Intangible assets		1,364,291	1,393,168	795,299	868,692
Other assets	8.15	780,006	698,964	291,647	235,250
Deferred acquisition costs		1,223,766	1,154,742	815,839	712,066
Estimated recoveries and recourses		110,697	114,229	123,168	127,262
Reinsurers' share in technical provisions	0, 8.22	1,049,785	1,096,852	771,784	753,115
Property, plant and equipment		1,285,418	1,299,788	984,606	1,001,609
Investment properties		1,219,152	1,171,721	2,299,677	2,236,062
Entities measured using the equity method	8.17	53,641	54,065	66,482	66,311
Financial assets		89,391,058	89,305,847	60,129,993	56,759,976
Held to maturity	8.18.1, 8.22	17,511,823	17,370,126	20,435,452	19,983,689
Available for sale	8.18.2, 8.22	8,208,356	7,744,689	3,214,674	2,985,322
Carried at fair value through profit or loss	8.18.3, 8.22	20,584,980	20,648,403	20,290,405	19,096,484
Hedging derivatives	8.18.7	161,441	139,578	-	-
Loans	8.18.4, 8.22	42,924,458	43,403,051	16,189,462	14,694,481
Deferred tax assets		392,557	349,189	20,632	26,957
Receivables, including receivables due under insurance contracts	8.21, 8.22	6,585,594	3,270,793	3,634,480	3,085,432
Current income tax receivables		120,606	67,295	1,777	368
Cash and cash equivalents		1,710,355	2,439,863	493,857	324,007
Assets held for sale	8.23	1,496,369	1,506,048	564,536	606,610
Total assets		**108,295,077**	**105,429,009**	**71,741,982**	**67,572,761**

[1)] Information on the reasons for transforming the data and the impact exerted on the consolidated profit and loss account is presented in item 4.2.

(in thousands of PLN)

Interim Consolidated statement of financial position (cont.)

Liabilities and equity	Note	31 March 2016	31 December 2015	31 March 2015 (restated) [1)]	1 January 2015 (restated) [1)]
Equity					
Equity attributable to equity holders of the Parent					
Share capital		86,352	86,352	86,352	86,352
Other capital		10,125,942	10,141,607	9,861,674	9,885,791
Retained earnings		3,182,235	2,695,760	4,135,221	3,194,193
Retained earnings		2,695,637	353,405	3,193,889	3,194,193
Net profit		486,598	2,342,355	941,332	-
Non-controlling interest		2,310,277	2,255,188	1,213	1,292
Total equity		**15,704,806**	**15,178,907**	**14,084,460**	**13,167,628**
Liabilities					
Technical provisions	8.24	41,405,028	41,280,321	40,616,405	40,166,885
Provisions for employee benefits		146,012	117,398	129,304	120,070
Other provisions	8.25	111,102	108,109	213,467	191,206
Deferred tax provision		642,118	509,157	350,638	398,433
Financial liabilities	8.26	43,714,364	44,487,823	12,523,413	9,403,244
Other liabilities	8.27	6,537,127	3,678,011	3,563,930	3,819,511
Current income tax liabilities		34,520	69,283	30,841	53,770
Liabilities related directly to assets classified as held for sale	8.23	-	-	229,524	252,014
Total liabilities		**92,590,271**	**90,250,102**	**57,657,522**	**54,405,133**
Total equity and liabilities		**108,295,077**	**105,429,009**	**71,741,982**	**67,572,761**

[1)] Information on the reasons for transforming the data and the impact exerted on the consolidated profit and loss account is presented in item 4.2.

(in thousands of PLN)

4. Interim statement of changes in consolidated equity

Statement of Changes in Consolidated Equity	Share capital	Equity attributable to equity holders of the Parent									Non-controlling interest	Total equity
		Other capital					Retained earnings			Total		
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	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**	**2,255,188**	**15,178,907**
Measurement of financial instruments available for sale	-	-	-	(13,818)	-	-	-	-	-	(13,818)	6,431	(7,387)
Transactions to hedge cash flows	-	-	-	(496)	-	-	-	-	-	(496)	(1,200)	(1,696)
Exchange differences from translation	-	-	-	-	-	-	(406)	-	-	(406)	-	(406)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	123	-	-	-	-	-	123	-	123
Total other net comprehensive income	**-**	**-**	**-**	**(14,191)**	**-**	**-**	**(406)**	**-**	**-**	**(14,597)**	**5,231**	**(9,366)**
Net profit (loss)	-	-	-	-	-	-	-	-	486,598	486,598	49,858	536,456
Total comprehensive income	**-**	**-**	**-**	**(14,191)**	**-**	**-**	**(406)**	**-**	**486,598**	**472,001**	**55,089**	**527,090**
Other changes, including:	**-**	**(1,191)**	**935**	**(812)**	**-**	**-**	**-**	**(123)**	**-**	**(1,191)**	**-**	**(1,191)**
Sale of revalued real estate	-	-	935	(812)	-	-	-	(123)	-	-	-	-
Purchase of treasury stock	-	(1,191)	-	-	-	-	-	-	-	(1,191)	-	(1,191)
As at 31 March 2016	**86,352**	**(1,191)**	**9,948,227**	**225,674**	**22**	**(4,404)**	**(42,386)**	**2,695,637**	**486,598**	**13,394,529**	**2,310,277**	**15,704,806**

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(in thousands of PLN)

Interim Statement of Changes in Consolidated Equity (cont.)

Statement of Changes in Consolidated Equity	Share capital	Equity attributable to equity holders of the Parent									Non-controlling interest	Total equity
		Other capital					Retained earnings		Total			
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	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 financial instruments available for sale	-		-	2,492	-	-	-	-	-	2,492	-	2,492
Other comprehensive income of entities measured by the equity method	-		-	871	-	45	1	-	-	917	-	917
Exchange differences from translation	-		-	-	-	-	(6,559)	-	-	(6,559)	(15)	(6,574)
Actuarial gains and losses related to provisions for employee benefits	-		-	-	-	1,730	-	-	-	1,730	-	1,730
Reclassification of real property from property, plant and equipment to investment property	-		-	7,201	-	-	-	-	-	7,201	-	7,201
Total other net comprehensive income	**-**		**-**	**10,564**	**-**	1,775	**(6,558)**	**-**	**-**	**5,781**	**(15)**	**5,766**
Net profit (loss)	-		-	-	-	-	-	-	2,342,355	2,342,355	(159)	2,342,196
Total comprehensive income	**-**		**-**	**10,564**	**-**	1,775	**(6,558)**	**-**	**2,342,355**	**2,348,136**	**(174)**	**2,347,962**
Other changes, including:	**-**	**110**	**268,371**	**(18,430)**	**(44)**	**-**	**28**	**(2,840,788)**	**-**	**(2,590,753)**	**2,254,070**	**(336,683)**
Distribution of financial result	-		248,262	-	(44)	-	-	(2,838,771)	-	(2,590,553)	-	(2,590,553)
Changes in the composition of the PZU Group and transactions with non-controlling shareholders	-		(388)	-	-	-	28	-	-	(360)	2,254,070	2,253,710
Sale of revalued real estate	-		20,447	(18,430)	-	-	-	(2,017)	-	-	-	-
Sale of treasury stock	-	110	50	-	-	-	-	-	-	160	-	160
Balance as at 31 December 2015	**86,352**	**-**	**9,947,292**	**240,677**	**22**	**(4,404)**	**(41,980)**	**353,405**	**2,342,355**	**12,923,719**	**2,255,188**	**15,178,907**

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(in thousands of PLN)

Interim statement of changes in consolidated equity (continued)

Statement of Changes in Consolidated Equity	Share capital	Equity attributable to equity holders of the Parent									Non-controlling interest	Total equity
		Other capital					Retained earnings		Total			
		Treasury stock	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses related to provisions for employee benefits	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 financial instruments available for sale	-	-	-	28,954	-	-	-	-	-	28,954	-	28,954
Exchange differences from translation	-	-	-	-	-	-	(53,660)	-	-	(53,660)	(21)	(53,681)
Reclassification of real property from property, plant and equipment to investment property	-	-	-	304	-	-	-	-	-	304	-	304
Total other net comprehensive income	**-**	**-**	**-**	**29,258**	**-**	**-**	**(53,660)**	**-**	**-**	**(24,402)**	**(21)**	**(24,423)**
Net profit (loss)	-	-	-	-	-	-	-	-	941,332	941,332	8	941,340
Total comprehensive income	**-**	**-**	**-**	**29,258**	**-**	**-**	**(53,660)**	**-**	**941,332**	**916,930**	**(13)**	**916,917**
Other changes, including:	**-**	**-**	**3,693**	**(3,408)**	**-**	**-**	**-**	**(304)**	**-**	**(19)**	**(66)**	**(85)**
Transactions with non-controlling shareholders	-	-	(19)	-	-	-	-	-	-	(19)	(66)	(85)
Sale of revalued real estate	-	-	3,712	(3,408)	-	-	-	(304)	-	-	-	-
As at 31 March 2015	**86,352**	**(110)**	**9,682,614**	**274,393**	**66**	**(6,179)**	**(89,110)**	**3,193,889**	**941,332**	**14,083,247**	**1,213**	**14,084,460**

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(in thousands of PLN)

5. Interim consolidated cash flow statement

Consolidated cash flow statement	1 January – 31 March 2016	1 January – 31 March 2015
Profit before tax	687,799	1,154,205
Adjustments	(874,970)	(604,416)
Movement in loans	(1,838,522)	-
Movement in deposits	1,792,994	-
Movement in the valuation of assets measured at fair value	(154,338)	(460,008)
Interest income	(675,818)	(292,732)
Realized gains/losses on investing activity and impairment charges	90,742	(117,784)
FX gains (losses)	10,456	(109,758)
Movement in deferred acquisition expense	(69,024)	(103,773)
Amortization of intangible assets and depreciation of property, plant and equipment	104,838	141,640
Movement in the reinsurers' share of technical provisions	47,067	(18,669)
Reinsurers' share in gross written insurance premium	53,899	69,530
Change in technical provisions	124,707	449,520
Movement in receivables	(79,877)	99,923
Change in liabilities	(73,618)	(56,252)
Income tax paid	(147,823)	(282,263)
Other adjustments	(60,653)	76,210
Net cash flow on operating activity	**(187,171)**	**549,789**
Cash flow on investing activity		
Proceeds	215,577,805	179,883,445
- sale of investment property	5,764	6,258
- proceeds from investment property	64,918	59,267
- sale of intangible assets and components of property, plant and equipment	2,675	3,892
- sale of ownership interests and shares	996,818	853,666
- realization of debt securities	30,507,570	14,289,875
- closing of buy-sell-back transactions	89,034,507	93,733,610
- closing of term deposits in credit institutions	71,663,270	59,344,061
- realization of other investments	23,216,425	11,492,274
- interest received	77,934	91,236
- dividends received	683	482
- cash acquired in business combinations and when changing the scope of consolidation	-	-
- other investment proceeds	7,241	8,824

(in thousands of PLN)

Interim consolidated cash flow statement (continued)

Consolidated cash flow statement	1 January – 31 March 2016	1 January – 31 March 2015
Expenditures	(214,035,382)	(181,525,627)
- purchase of investment property	(77,009)	(67,694)
- expenditures for the maintenance of investment property	(44,115)	(102,574)
- purchase of intangible assets and components of property, plant and equipment	(140,936)	(77,442)
- purchase of ownership interests and shares	(943,947)	(1,155,617)
- purchase of ownership interests and shares in subsidiaries	(343,824)	-
- purchase of debt securities	(30,796,390)	(14,792,094)
- opening of buy-sell-back transactions	(86,912,555)	(96,674,801)
- purchase of term deposits in credit institutions	(71,413,639)	(56,988,528)
- purchase of other investments	(23,362,354)	(11,662,911)
- other expenditures for investments	(613)	(3,966)
Net cash flow on investing activity	**1,542,423**	**(1,642,182)**
Cash flow on financing activity		
Proceeds	81,802,253	77,860,142
- proceeds from loans and borrowings	15,316	19,854
- proceeds from the issue of own debt securities	44,078	-
- opening of sell-buy-back transactions	81,742,859	77,840,288
Expenditures	(83,870,368)	(76,590,290)
- dividends paid to holders of the parent company's equity	-	(1,468,017)
- repayment of loans and borrowings	(663)	(1,729)
- closing of sell-buy-back transactions	(83,844,709)	(75,118,518)
- interest on loans and borrowings	(1,530)	(1,920)
- interest on outstanding debt securities	(9,836)	-
- other financial expenditures	(13,630)	(106)
Net cash flow on financing activity	**(2,068,115)**	**1,269,852**
Total net cash flow	**(712,863)**	**177,459**
Cash and cash equivalents at the beginning of the period	2,439,863	324,007
Change in cash due to exchange rate differences	(16,645)	(7,609)
Cash and cash equivalents at the end of the period, including:	1,710,355	493,857
- restricted cash	80,196	14,377

Supplementary notes to the condensed interim consolidated financial statements

1. Information on PZU and the PZU Group

1.1 PZU

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

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

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

(in thousands of PLN)

1.2 PZU Group companies

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2016	31 December 2015	
Consolidated entities						
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 Dec. 1991	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA	Warsaw	15 Sep. 2014	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych	Warsaw	20 Nov. 2015	100.00%	100.00%	Non-life insurance. http://tuwpzuw.pl/
5	Lietuvos Draudimas AB	Vilnius (Lithuania)	31 Oct. 2014	99.98%	99.98%	Non-life insurance. http://www.ld.lt/
6	Apdrošināšanas Akciju Sabiedrība Balta	Riga (Latvia)	30 June 2014	99.99%	99.99%	Property insurance. http://www.balta.lv/
7	PrJSC IC PZU Ukraine	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	Property insurance. http://www.pzu.com.ua/
8	PrJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26 Apr. 2002	99.34%	99.34%	Life insurance. https://pzugd.lt/
Consolidated entities - Alior Bank Group						
10	Alior Bank SA [1)]	Warsaw	18 Dec. 2013	29.22%	23.96% [2)]	Banking Services https://www.aliorbank.pl/
11	Alior Services sp. z o.o. [1)]	Warsaw	18 Dec. 2015	29.22%	23.96% [2)]	Other financial services supporting activity, excluding insurance and pension funds
12	Centrum Obrotu Wierzytelnościami sp. z o.o. [1)]	Kraków	18 Dec. 2015	29.22%	23.96% [2)]	Trading in receivables.
13	Alior Leasing sp. z o.o. [1)]	Wroclaw	18 Dec. 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 Dec. 2015	29.22%	23.96% [2)]	IT services.
15	Money Makers TFI SA [1)]	Warsaw	18 Dec. 2015	17.68% [3)]	14.49% [2) 3)]	Asset management services and Alior SFIO sub-fund management. http://www.moneymakers.pl
16	New Commerce Services sp. z o.o. [1)]	Warsaw	18 Dec. 2015	29.22%	23.96% [2)]	Auxiliary activity.
17	Absource sp. z o.o. in organization	Kraków	31 Mar. 2015 [4)]	29.22%	n/a	Service activity in the area of IT.

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2016	31 December 2015	
Consolidated entities - other entities						
18	Powszechne Towarzystwo Emerytalne PZU SA	Warsaw	8 Dec. 1998	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
19	PZU Centrum Operacji SA	Warsaw	30 Nov. 2001	100.00%	100.00%	Auxiliary activity associated with insurance and pension funds.
20	Towarzystwo Funduszy Inwestycyjnych PZU SA	Warsaw	30 Apr. 1999	100.00%	100.00%	Establishment, representation and management of mutual funds http://www.pzu.pl/grupa-pzu/tfi-pzu
21	PZU Pomoc SA	Warsaw	18 Mar. 2009	100.00%	100.00%	Provision of assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
22	PZU Finance AB (publ.)	Stockholm (Sweden)	2 June 2014	100.00%	100.00%	Financial services.
23	PZU Finanse Sp. z o.o.	Warsaw	8 Nov. 2013	100.00%	100.00%	Financial and accounting services.
24	Tower Inwestycje Sp. z o.o.	Warsaw	27 Aug. 1998	100.00%	100.00%	Other service activity.
25	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15 Sep. 2004	100.00%	100.00%	Buying, operating, renting and selling real estate. http://www.ogrodowainwestycje.pl/
26	PZU Zdrowie SA	Warsaw	2 Sep. 2011	100.00%	100.00%	Medical services. http://www.pzu.pl/pzu-zdrowie
27	Centrum Medyczne Medica sp. z o.o.	Płock	9 May 2014	100.00%	100.00%	Medical services. http://cmmedica.pl/
28	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o.	Włocławek	12 May 2014	100.00%	100.00%	Medical services. http://cmprofmed.pl/
29	Sanatorium Uzdrowiskowe "Krystynka" sp. z o.o.	Ciechocinek	9 May 2014	99.09%	99.09%	Hospital, physical therapy and spa services. http://www.sanatoriumkrystynka.pl/
30	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o.	Jaworzno	1 Dec. 2014	100.00%	100.00%	Medical services. http://www.elvita.pl/
31	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o.	Łaziska Górne	1 Dec. 2014	57.00%	57.00%	Medical services. http://www.proelmed.pl/
32	Rezo-Medica sp. z o.o.	Płock	23 Apr. 2015	100.00%	100.00%	Medical services. http://rezo-medica.pl/
33	Centrum Medyczne Gamma sp. z o.o.	Warsaw	8 Sep. 2015	60.46%	60.46%	Medical services. http://www.cmgamma.pl/
34	Nasze-Zdrowie sp. z o.o.	Warsaw	26 Aug. 2015	100.00%	100.00%	Medical services. http://www.nasze-zdrowie.pl/
35	Medicus w Opolu sp. z o.o.	Opole	30 Sep. 2015	100.00%	100.00%	Medical services. http://medicus.opole.pl/
36	Centrum Medyczne Cordis sp. z o.o. 5)	Poznań	1 Feb. 2016	100.00%	n/a	Medical services. http://www.cordis.com.pl/
37	Arm Property sp. z o.o.	Kraków	26 Nov. 2014	100.00%	100.00%	Purchase and sale of real estate.

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2016	31 December 2015	
Consolidated entities - other entities - continued						
38	Ipsilon Sp. z o.o.	Warsaw	2 Apr. 2009	100.00%	100.00%	Provision of assistance services and medical services.
39	PZU Asset Management SA	Warsaw	12 July 2001	100.00%	100.00%	No business conducted.
40	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA in liquidation	Warsaw	13 Aug. 2004	100.00%	100.00%	No business conducted.
41	Omicron SA	Warsaw	13 Sep. 2011	100.00%	100.00%	No business conducted.
42	Omicron BIS SA	Warsaw	28 Aug. 2014	100.00%	100.00%	No business conducted.
43	Sigma BIS SA	Warsaw	12 Dec. 2014	100.00%	100.00%	No business conducted.
44	LLC SOS Services Ukraine	Kiev (Ukraine)	1 July 2005	100.00%	100.00%	Assistance services.
45	L4C sp. z o.o.	Warsaw	15 Sep. 2014	100.00%	100.00%	No business conducted.
Consolidated entities - Armatura Group						
46	Armatura Kraków SA	Kraków	7 Oct. 1999	100.00%	100.00%	Distribution of Armatura Group products, administration and management of the group. http://www.grupa-armatura.pl/
47	Armatoora SA	Nisko	10 Dec. 2008	100.00%	100.00%	Production and sale of radiators and sanitary fittings.
48	Aquaform SA	Środa Wlkp.	15 Jan. 2015	100.00%	100.00%	Production and sale of bathroom accessories and fittings.
49	Aquaform Badprodukte GmbH	Anhausen (Germany)	15 Jan. 2015	100.00%	100.00%	Wholesale trade.
50	Aquaform Ukraine TOW	Zhytomyr (Ukraine)	15 Jan. 2015	100.00%	100.00%	Wholesale trade.
51	Aquaform Romania SRL	Prejmer (Romania)	15 Jan. 2015	100.00%	100.00%	Wholesale trade.
52	Morehome.pl sp. z o.o.	Środa Wlkp.	15 Jan. 2015	100.00%	100.00%	Retail sales via electronic channels.
Consolidated entities - mutual funds						
53	PZU SFIO Universum	Warsaw	15 Dec. 2009	n/a	n/a	Investment of funds collected from fund members.
54	PZU FIZ Dynamiczny	Warsaw	27 Jan. 2010	n/a	n/a	as above
55	PZU FIZ Sektora Nieruchomości [6)]	Warsaw	1 July 2008	n/a	n/a	as above
56	PZU FIZ Sektora Nieruchomości 2 [6)]	Warsaw	21 Nov. 2011	n/a	n/a	as above

(in thousands of PLN)

No.	Name of the entity	Registered office	Date of obtaining control / material influence	% of the share capital and % of votes held directly or indirectly by PZU		Line of business and website
				31 March 2016	31 December 2015	
Consolidated entities - mutual funds - continued						
57	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12 Dec. 2012	n/a	n/a	as above
58	PZU FIZ Aktywów Niepublicznych BIS 2	Warsaw	19 Nov. 2012	n/a	n/a	as above
59	PZU FIZ Surowcowy	Warsaw	3 Sep. 2015	n/a	n/a	as above
60	PZU Sejf+	Warsaw	30 Sep. 2015	n/a	n/a	as above
61	PZU Dłużny Rynków Wschodzących	Warsaw	20 Nov. 2006	n/a	n/a	as above
62	PZU Akcji Rynków Wschodzących	Warsaw	20 Nov. 2006	n/a	n/a	as above
63	PZU Akcji Spółek Dywidendowych	Warsaw	20 Nov. 2006	n/a	n/a	as above
64	PZU FIO Gotówkowy	Warsaw	1 July 2005	n/a	n/a	as above
65	PZU FIZ Akcji Focus	Warsaw	10 Dec. 2015	n/a	n/a	as above
Joint venture in the Armatura Group						
66	Armatura Tower Sp. z o.o.	Kraków	8 Nov. 2013	50.00%	50.00%	Execution of construction projects.
Associates						
67	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	8 June 1999	30.00%	30.00%	Insurance service.
68	EMC Instytut Medyczny SA	Wroclaw	18 June 2013	28.31%	28.31%	Human health activities, research and development in the area of medical sciences and pharmaceutical practice.

[1] Information on the acquisition of Alior Bank SA along with related entities is presented in item 1.4.1.1.
[2] PZU Group's share in the share capital of Alior Bank and in votes at the Shareholder Meeting determined on the basis of the number of shares held by PZU (the first and second tranche), PZU Życie and consolidated investment funds. Net of the shares acquired by PZU as part of the third tranche of the transaction described in item 1.4.1.1.
[3] A direct subsidiary of Alior Bank in which it holds a 60.49% stake. As a result, the PZU Management Board regards that the PZU Group controls the entity.
[4] A company established on 31 March 2016 and entered in the National Court Register (KRS) on 4 May 2016.
[5] Information on the acquisition of Centrum Medyczne Cordis sp. z o.o. is presented in item 1.4.1.2.
[6] As at 31 March 2016, the funds: PZU FIZ Sektora Nieruchomości and PZU FIZ Sektora Nieruchomości 2 conducted their investment activity through subsidiary companies (consolidated) established under commercial law as special-purpose vehicles whose number in the respective funds was: 24 and 11 (on 31 December 2015: 24 and 11).

As at 31 March 2016, besides the companies listed in the table the PZU Group held a 100% stake in Syta Development sp. z o.o. in liquidation, control over which is exercised by a liquidator independent of the PZU Group and for this reason the company is not subject to consolidation. The value of these shares in the PZU Group's consolidated statement of financial position was zero.

(in thousands of PLN)

1.3 Non-controlling interest

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

Name of the company	31 March 2016	31 December 2015
Alior Bank [1]	70.78% [2]	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 (the non-controlling interest in this entity is 82.32%), New Commerce Services sp. z o.o.
[2] The value of Alior Bank's non-controlling interest is presented with the third tranche of the transaction described in item 1.4.1.1. The balance sheet value of Alior Bank's non-controlling interest as at 31 March 2016 was: PLN 2,305,216 thousand (as at 31 December 2015: PLN 2,249,609 thousand).

The table below presents condensed financial information (based on the provisionally determined fair value at the as at the date of the assumption of control) concerning the Alior Bank Group disclosed in the condensed interim consolidated financial statement.

Assets	31 March 2016	31 December 2015
Intangible assets	570,942	581,706
Other assets	178,911	109,378
Property, plant and equipment	224,482	228,955
Financial assets	38,963,771	35,844,054
Available for sale	6,197,625	4,866,713
Carried at fair value through profit or loss	359,798	390,569
Hedging derivatives	161,441	139,578
Borrowings	32,244,907	30,447,194
Deferred tax assets	369,258	329,184
Receivables, including receivables due under insurance contracts	468,881	484,862
Cash and cash equivalents	905,135	2,089,579
Assets held for sale	682	888
Total assets	**41,682,062**	**39,668,606**

Equity and liabilities	31 March 2016	31 December 2015
Equity		
Issued share capital and other capital attributable to holders of the parent company		
Share capital	727,075	727,075
Other capital	2,798,782	2,479,793
Retained earnings	(268,833)	(28,413)
Non-controlling interest	1,013	1,240
Total equity	**3,258,037**	**3,179,695**
Liabilities		
Provisions for employee benefits	35,567	26,269
Other provisions	13,728	8,731
Deferred tax provision	90	-
Financial liabilities	37,483,694	35,921,048
Current income tax liabilities	30,722	21,776
Other liabilities	860,224	511,087
Total liabilities	**38,424,025**	**36,488,911**
Total equity and liabilities	**41,682,062**	**39,668,606**

(in thousands of PLN)

Consolidated profit and loss account	1 January – 31 March 2016
Revenue from commissions and fees	137,970
Net investment income	719,594
Net result on the realization of investments and impairment charges	(156,841)
Net change in the fair value of assets and liabilities measured at fair value	1,965
Other operating income	21,661
Fee and commission expense	(50,709)
Interest expense	(250,748)
Administrative expenses	(242,509)
Other operating expenses [1)]	(85,438)
Operating profit [1)]	**94,945**
Profit before tax [1)]	**94,945**
Income tax	(23,994)
Net profit [1)]	**70,951**

[1)] Including amortization of intangible assets acquired in the acquisition of Alior Bank.

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

1.4.1. Business combination transactions

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 “Business combinations”. Its application requires, among others, identifying the acquiring entity, determining the acquisition date, recognizing and measuring identifiable acquired assets, acquired liabilities measured at fair value as at the acquisition date and all non-controlling interests in the acquired entity as well as recognizing and measuring goodwill.

Detailed accounting standards for the recognition of acquisition transactions are presented in the 2015 annual consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group.

1.4.1.1. Purchase of shares in Alior Bank SA

Pursuant to a preliminary agreement to sell Alior Bank shares signed on 30 May 2015, PZU purchased 17,818,473 Alior Bank shares from Alior Lux S.à.r.l. & Co. S.C.A (“Seller 1”) and 500,000 Alior Bank shares from Alior Polska sp. z o.o. (“Seller 2”), i.e. a total of 18,318,473 shares representing about 25.19% of Alior Bank’s share capital and the overall number of votes at Alior Bank’s shareholder meeting.

The price per share was PLN 89.25 and the total price paid for the shares was PLN 1,634,924 thousand.

On 12 October 2015, the purchase of the first tranche of Alior Bank’s shares was settled, on 18 December 2015 of the second tranche and on 11 March 2016 of the third tranche. In the period from 12 October 2015 until 18 December 2015 the PZU Group did not exercise control over Alior Bank but exerted significant influence, as a result of which Alior Bank was regarded as an associate during that period. As a consequence of acquiring the second tranche, the PZU Group assumed control over Alior Bank, in view of which it was included in consolidation from 18 December 2015. Alior Bank’s 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 and New Commerce Services sp. z o.o., were also included in the consolidation.

As a result of the purchase of the three tranches, PZU holds directly 18,318,473 shares in Alior Bank constituting 25.19% of Alior Bank’s share capital and of the total number of votes at the shareholder meeting of Alior Bank. Additionally, PZU holds indirectly, through PZU Życie and controlled investment funds, 4.03% of Alior Bank’s share capital and of the total number of votes at the Shareholder Meeting of Alior Bank.

Provisional settlement of the acquisition of shares in Alior Bank

The settlement of the Alior Bank share purchase as at the date of assuming control was based on data prepared as at 31 December 2015. There were no significant differences in accounting data between 18 December 2015 (the date of the assumption of control) and 31 January 2015.

During the calculation of goodwill, the book value of Alior Bank's assets and liabilities was updated to fair value and intangible assets previously unreported by the company as assets were identified.

The process of the settlement for the acquisition of Alior Bank was not completed by the date of publication of the condensed interim consolidated financial statements. The collection of the large quantities of data and appropriate calculations are required to compute fair value in a reliable and accurate manner. This made it impossible to complete the process in the period between the date of assuming control over Alior Bank and the date of publishing the condensed interim consolidated financial statements. Therefore, the PZU Group decided to account for the acquisition on a provisional basis, in the following manner:

- with respect to the fair value measurement of the credit portfolio – the fair value disclosed in the consolidated financial statements of the Alior Bank Group as at 31 December 2015 was adopted;
- the liability on account of the measurement of disadvantageous leases; relations with clients (other than clients holding savings and checking accounts) were not recognized;
- an analysis of the potential fair value measurement of property, plant and equipment and intangible assets was not completed;
- the measurement of off-balance sheet liabilities was not included.

The final settlement will be presented after the completion of the process of identifying and calculating the fair value of the acquired assets, liabilities and off-balance sheet liabilities.

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

Goodwill calculation	(PLN 000s)
Consideration paid (the second and third tranche) - cash	988,316
Value of non-controlling interests (70.78% of the fair value of Alior Bank's net assets)	2,249,609
Fair value of the shares held at the time of taking control	661,099
Provisional fair value of Alior Bank's identifiable net assets	(3,178,455)
Goodwill	**720,569**

Goodwill will not decrease taxable income.

1.4.1.2. Purchase of Centrum Medyczne Cordis sp. z o.o.shares

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 shareholder meeting, with a par value of PLN 50 each.

CM Cordis sp. z o.o. was included in the consolidation from the date of assuming control, i.e. from 1 February 2016.

1.4.1.3. Acquisition of the credit union Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Stefana Kard. Wyszyńskiego

On 26 January 2016, the Polish Financial Supervision Authority (KNF) took a decision for Alior Bank to acquire Spółdzielcza Kasa Oszczędnościowo-Kredytowa im. Stefana Kard. Wyszyńskiego ("SKOK").

On 27 January 2016, Alior Bank assumed management over the assets of SKOK, and starting from 1 March 2016 it took over SKOK. Pursuant to Article 74c sec. 4 of the Act on Credit Unions of 5 November 2009 (consolidated text: Journal of Laws of 2013, item 1450), the acquiring bank assumes all the rights and obligations of the acquired credit union as from the acquisition date. Up to the date of its acquisition, SKOK conducted activity and offered its members the full range of services rendered to that date.

The acquisition of SKOK by Alior Bank will ensure the full safety of the funds accumulated in SKOK, guaranteeing its members access to Alior Bank's broader product offer.

Provisional settlement of the acquisition of SKOK (Savings & Loans)

The process of the settlement for the acquisition of SKOK (Savings & Loans) was not completed by the date of publication of the condensed interim consolidated financial statements.

The acquisition of SKOK (Savings & Loans) did not entail Alior Bank remitting a payment. This process is taking place with the financial support provided by the Bank Guarantee Fund pursuant to art. 20g of the Bank Guarantee Fund Act of 14 December 1994. The bank will receive support from the Bank Guarantee Fund in the form of a subsidy to cover the difference between the value of the asset rights acquired and the value of the liabilities for guaranteed funds on depositors' accounts; this amount has been tentatively estimated to be PLN 50,501 thousand and has been recognized in the line item entitled "Other assets".

Provisional fair value of acquired assets and liabilities as at the date of the assumption of control	(PLN 000s)
Financial assets	111,621
Other assets	2,263
Total assets	**113,884**
Amounts payable to clients guaranteed by the Bank Guarantee Fund (BGF)	164,385
Other liabilities	2,695
Provisional fair value of the net assets acquired	**(53,196)**

Goodwill calculation	(PLN 000s)
Estimated grant from BFG	50,501
Provisional fair value of Alior Bank's identifiable net assets	(53,196)
Goodwill	**2,695**

(in thousands of PLN)

2. Shareholder structure

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

No.	Shareholder's name	Number of shares and votes at the Shareholder Meeting	Percentage share in the share capital and in the total number of votes at the Shareholder Meeting
1	State Treasury	295,217,300 [1)]	34.1875%
2	Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	49,156,660 [2)]	5.6926%
3	Other shareholders	519,149,040	60.1199%
Total		**863,523,000**	**100.00%**

[1)] On the basis of current report no. 21/2016, concerning the notification transmitted by State Treasury Ministry, advising of the reduction in the percentage of PZU SA's total number of votes and share capital held by the State Treasury of the Republic of Poland.
[2)] On the basis of current report no. 3/2016, concerning the list of shareholders with at least 5% of the number of votes at PZU's Extraordinary Shareholder Meeting held on 7 January 2016.

2.1 Changes in the ownership structure of significant shareholdings in the issuer's company

In the period from 1 January 2016 to the date of conveying this periodic report, no significant changes have taken place in the ownership structure of PZU shares.

2.2 Highest ranking parent company of PZU

As at 31 March 2016, the State Treasury of the Republic of Poland held 34.1875% of PZU shares giving it the right to exercise 34.1875% of votes at the Shareholder Meeting. Therefore, there was no highest ranking parent of PZU that would prepare consolidated financial statements.

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

Both as at the date of conveying this periodic report and as at the date of conveying the 2015 annual report (i.e. 15 March 2016), no Management Board member, Supervisory Board member or Group Director held PZU shares or rights to shares.

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

3.1 Composition of the parent company's Management Board

From 1 January 2016, the PZU Management Board consisted of the following persons:

- 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 filed resignations from the functions of Members of the PZU Management Board effective from 19 January 2016.

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

On 18 March 2016, Przemysław Dąbrowski filed his resignation from the function of a Member of the PZU Management Board effective from 18 March 2016.

On 19 March 2016, Paweł Surówka filed his resignation from the function of a Member of the PZU Management Board effective from 19 March 2016.

On 19 March 2016, the PZU Supervisory Board appointed, effective from 22 March 2016, Sebastian Klimek and Maciej Rapkiewicz to the PZU Management Board to discharge the function of a Management Board Member. The appointments are for the joint term of office that commenced on 1 July 2015 and encompasses three consecutive full financial years. 2016 will be the first full financial year of this term of office.

From 22 January 2016 to the date of conveying this interim report, the PZU Management Board consisted of the following persons:

- Michał Krupiński – President of the PZU Management Board;
- Roger Hodgkiss – Member of the PZU Management Board;
- Sebastian Klimek – Member of the PZU Management Board;
- Beata Kozłowska-Chyła – Member of the PZU Management Board;
- Dariusz Krzewina – Member of the PZU Management Board;
- Robert Pietryszyn – Member of the PZU Management Board;
- Maciej Rapkiewicz – Member of the PZU Management Board.

3.2 Composition of the parent company's Supervisory Board

From 1 January 2016, the PZU Supervisory Board consisted of the following persons:

- Zbigniew Ćwiąkalski – Supervisory Board Chairman;
- Paweł Kaczmarek – Supervisory Board Deputy Chairman,
- Dariusz Filar – Supervisory Board Secretary;
- Zbigniew Derdziuk – Supervisory Board Member;
- Dariusz Kacprzyk – Supervisory Board Member;
- Jakub Karnowski – Supervisory Board Member;
- Aleksandra Magaczewska - Supervisory Board Member;
- Alojzy Nowak – Supervisory Board Member;
- Maciej Piotrowski – Supervisory Board Member.

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

On the same day, the PZU ESM appointed: Marcin Chludziński, Marcin Gargas, Eligiusz Krześniak, Jerzy Paluchniak, Piotr Paszko, Radosław Potrzeszcz and Maciej Zaborowski to the Supervisory Board. The resolutions on the dismissal and appointment took force on the date of their adoption.

From 7 January 2016 to the date of conveying this interim report, the PZU Supervisory Board consisted of the following persons:

- Paweł Kaczmarek – Supervisory Board Chairman (since 19 January 2016),
- Marcin Gargas – Supervisory Board Deputy Chairman (since 19 January 2016);
- Maciej Zaborowski – Supervisory Board Secretary (since 19 January 2016);
- Marcin Chludziński – Supervisory Board Member;

- Eligiusz Krześniak – Supervisory Board Member;
- Alojzy Nowak – Supervisory Board Member;
- Jerzy Paluchniak – Supervisory Board Member;
- Piotr Paszko – Supervisory Board Member;
- Radosław Potrzeszcz – Supervisory Board Member.

3.3 PZU Group Directors

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

From 1 January 2016 the following persons were PZU Group Directors:

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

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

From 25 march 2016 to the date of conveying this periodic report, the following persons were PZU Group Directors:

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

4. Key accounting principles (accounting policy)

Detailed accounting principles (accounting policy) are presented in the annual consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group for 2015, signed by the PZU Management Board on 14 March 2016 ("PZU Group's 2015 consolidated financial statements").

The PZU Group's 2015 consolidated financial statements are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

4.1 Changes in accounting principles, estimates, previous years' errors

(in thousands of PLN)

4.1.1. Amendments to the applied IFRS

4.1.1.1. Standards, interpretations and amended standards effective from 1 January 2016

Standard/interpretation	Date of entry into effect for annual periods starting from	Regulation approving the standard or interpretation	Commentary
Amendment to IAS 16 and IAS 41 – Bearer Plants	1 January 2016	2113/2015	The amendment introduces the definition of productive assets and removes them from the scope of application of IAS 41 by moving them to IAS 16, which will result in a change in the measurement method. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 11 – Accounting for the Acquisition of Interests in Joint Ventures or Joint Operations	1 January 2016	2173/2015	The amendment clarifies that the party acquiring shares in joint operations should follow all rules related to acquisition accounting under IFRS 3 and other IFRS rules that are not in conflict with IFRS 11 and should disclose the information required by these standards. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IAS 16 and IAS 38 – Clarification of Allowable Depreciation Methods	1 January 2016	2231/2015	The amendment clarifies that the adoption of depreciation methods based on revenues generated by assets is not appropriate. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IFRS (2012-2014)	1 January 2016	2343/2015	Amendments to IFRS 5 – adding guidance on the reclassification of assets held for sale to held for distribution to owners and vice versa, and cases of the cessation of classification of assets as held for distribution to owners. Amendments to IFRS 7 – supplemented with guidelines concerning disclosures related to asset handling agreements and explanations regarding the application of compensation-related amendments to IFRS 7 in condensed interim financial statements. Amendment to IAS 19 – clarification that high-quality corporate bonds used for the purposes of estimating the discount rate used in the calculation of post-employment benefits should be denominated in the same currency as the currency of the future payment of the benefits (and hence market activity on such bonds should be evaluated at the currency level). Amendments to IAS 34 – detailing of concepts. The change did not affect the PZU Group's consolidated financial statements.
Amendments to IAS 1 – initiative on disclosures	1 January 2016	2406/2015	Introduction of requirements for a structured layout of financial statements, the requirement for reconciliation of subtotals in the profit and loss account, in the statement of comprehensive income and the statement of financial position, and additional guidelines for materiality, level of detail in presentations and accounting principles. The change resulted in minor modifications in the layout of basic tables in the PZU Group's consolidated financial statements.
Amendment to IAS 27 – equity method in separate financial statements	1 January 2016	2441/2015	The amendment permits entities to apply the equity method for the valuation of investments in subsidiaries, associates and joint ventures in standalone financial statements. The change did not affect the PZU Group's consolidated financial statements.

(in thousands of PLN)

4.1.1.2. Standards, interpretations and amended standards not yet effective

The following standards, interpretations and amended standards have been issued but have not come into effect:

- Not approved by the European Commission:

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
IFRS 9 – Financial Instruments	24 July 2014	1 January 2018	This standard replaces IAS 39 and establishes requirements for the recognition and measurement, impairment, de-recognition of financial instruments and hedge accounting. This 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 assets in question. This standard also unifies the impairment model for all financial instruments. The new model of expected loss from impairment requires a quicker recognition of expected credit losses. The standard introduces a reformed hedge accounting model with enhanced requirements concerning disclosures of risk management activities. Due to the different dates of entry into force of IFRS 9 and IFRS 4 Phase II for insurance contracts (the standard will come into force no earlier than in 2020), considered is the possibility of applying different approaches aimed at eliminating from the profit and loss account any significant volatility arising from the faster application of amendments to the valuation of financial assets compared to the corresponding amendments to the valuation of insurance contracts. The Board is considering the following approaches for the transition period (between 1 January 2018 and the date of entry of the new IFRS 4 into force): • Clear separation from the profit and loss account of the difference in the valuation of financial assets associated with insurance activity according to IFRS 9 and IAS 39 and its presentation in other comprehensive income; • In the case of corporate groups conducting both insurance and banking business – the possibility of applying IAS 39 to the valuation of all financial assets in the consolidated financial statements in cases where the insurance business is dominant (at least ¾ of the group's liabilities are insurance liabilities). In cases where the insurance business is not dominant, all financial assets in the consolidated financial statements must be valued in accordance with IFRS 9; • Possibility of a simultaneous application, in the consolidated financial statements, of valuation consistent with IAS 39 for financial assets associated with the insurance business and IFRS 9 for other financial assets. Following the consolidation of Alior Bank, the PZU Group will not satisfy the criterion enabling the application of the latter simplification. Due to the remote effective date of IFRS 9 and the absence of the final shape of amendments to IFRS 4 regarding transitional solutions, the effect of application of IFRS 9 on the PZU Group's comprehensive

(in thousands of PLN)

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
			income and equity has not been estimated.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016 1)	Enabling entities applying IFRS for the first time, which currently recognize regulatory deferral account balances in accordance with their previous, generally accepted accounting standards to continue recognizing these balances after switching to IFRS. This amendment does not apply to the PZU Group.
IFRS 15 – Revenue from Contracts with Customers	28 May 2014 as well as amendments of 11 September 2015 and explanations of 12 April 2016	1 January 2018 2)	IFRS 15 specifies how and when to recognize revenues and requires the presentation of more detailed disclosures. This standard replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of interpretations related to revenue recognition. The standard applies to almost all agreements with customers (the main exceptions concern lease agreements, financial instruments and insurance agreements). The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of goods or services to customers and in an amount that reflects the value of consideration (i.e. the payment) which the company expects to obtain a right to in exchange for the goods or services. The standard also provides guidelines for recognizing transactions that were not regulated in detail in previous standards (e.g. revenues from services or modification of agreements) and contains more comprehensive explanations on the recognition of agreements with multiple deliverables. Due to the remote effective date and inapplicability to the PZU Group’s insurance entities, the effect of application of the new standard on comprehensive income and equity was not estimated.

(in thousands of PLN)

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
IFRS 16 – Leases	13 January 2016	1 January 2019	IFRS 16 replaces IAS 17 *Leases* and any interpretations related to this standard. In respect of lessees, the new standard eliminates the distinction between financial leases and operating leases. Capturing operating leases in the statement of financial position will result in the recognition of a new asset – the right to use the leased object – and a new liability – the liability to make lease payments. The rights to use the leased assets will be subject to amortization, and interest will be charged on the liability. This will generate greater costs in the initial phase of the lease, even in cases where the parties have agreed on fixed annual fees. Recognition of leases on the lessor's side will in most cases remain unchanged due to the maintenance of the breakdown between operating leases and financial leases. Due to the remote effective date and the recent date of publication of the new standard, the effect of application of the new standard on comprehensive income and equity has not yet been estimated.
Amendments to IAS 7 – Initiative on disclosures	29 January 2016	1 January 2017	These changes provide for the presentation of disclosures enabling assessment of changes in the values of liabilities created as part of financial activity (both resulting from cash flows and changes of a non-cash nature). The application of the requirements will entail the need to include additional disclosures in the consolidated financial statements of the PZU Group.
Amendments to IAS 12 – Recognition of deferred tax on unrealized losses	19 January 2016	1 January 2017	These amendments clarify, without limitation, that unrealized losses related to debt instruments measured at fair value for which the tax value is their original cost may give rise to negative temporary differences. The amendment will not affect the PZU Group's consolidated financial statements.
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11 September 2014	Deferred until an unspecified date	The main consequence of the amendment is the recognition of total profit or loss in a situation where the transaction concerns an organized business (regardless of whether it is located in a subsidiary or not), while partial gains or losses are recognized when the transaction relates to separate assets that do not form an organized business, even if they are located in the subsidiary. The amendment will not affect the PZU Group's consolidated financial statements.

(in thousands of PLN)

Standard/interpretation	Date of issue by the International Accounting Standards Board	Date of entry into effect for annual periods starting (according to the International Accounting Standards Board)	Commentary
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Application of exemptions from consolidation	18 December 2014	1 January 2016	IFRS 10 – Supplemented with additional guidelines requiring investment entities to apply mandatory consolidation of non-investment subsidiaries providing investment-related services; supplemented with guidelines on the absence of a duty to prepare consolidated statements by parent companies of a lower level controlled by investment entities. IAS 28 – supplemented with guidelines on the application of valuation using the equity method by an investor that is not an investment entity in relation to an associate investment entity or joint venture. The amendment will not affect the PZU Group's consolidated financial statements.

1) The European Commission suspended the process of approval until the time of publishing the final version of the standard.
2) On 28 April 2015 the International Accounting Standards Board voted to defer the effective date by a year until 1 January 2018.

In summary, in the opinion of the PZU Group, the introduction of the above standards and interpretations will have no material effect on the accounting principles followed by the PZU Group, except for IFRS 9 and IFRS 15 whose impact on the accounting principles applied by the PZU Group is yet to be assessed.

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

4.2.1. Change in the layout of the consolidated statement of profit or loss, consolidated statement of financial position and consolidated cash flow statement

In order to capture, in the consolidated financial statements of the PZU Group, financial data of the Alior Bank group, consolidated since 18 December 2015, presentation changes were made to the layout of the consolidated profit and loss account, the consolidated statement of financial position and the consolidated cash flow statement.

In the consolidated profit and loss account:

- separated is a new line item "Interest expense" for recognition of interest expenses on term deposits and current accounts, repurchase transactions and issued debt securities which were previously recognized in the line item "Financial expenses". Also transferred to this line item are interest expenses related to investment contracts with guaranteed and fixed terms, previously recognized in the line item "Movement in measurement of investment contracts";
- removed is the line item "Movement in measurement of investment contracts" – the amounts recognized in this line item have been transferred, depending on the method of valuation of the contract at the effective interest rate or at fair value, to the "Interest expense" or "Net change in the fair value of assets and liabilities measured at fair value", respectively;
- removed is the line item "Financial expenses" – the interest expense recognized in this line item has been transferred to "Interest expense" while exchange rate differences have been transferred to "Net investment income".

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

- removed is the breakdown between the different types of technical reserves;
- removed are the line items related to investment contracts – the amounts related to investment contracts are presented under "Financial liabilities";
- removed are the line items "Derivatives" and "Liabilities on the issue of own debt securities" – the amounts presented previously in these line items are now recognized in a new line item of "Financial liabilities";
- created is a new line item of "Financial liabilities" – which captures, without limitation, derivatives, investment contracts, liabilities to participants in consolidated mutual funds, liabilities to banks and depositors and liabilities on the issue of securities, as presented in detail in the notes.

Moreover, the line items of the consolidated statement of financial position have been rearranged in order to provide a more precise picture of the liquidity criterion.

The consolidated cash flow statement depicts operating business indirectly, instead of the direct method used to date.

4.2.2. Final settlement for the acquisition of shares in Link4 and Lietuvos Draudimas AB

As a result of the final settlement for the acquisition of Link4 and Lietuvos Draudimas AB (on 11 March 2015 and 3 June 2015, respectively), the goodwill presented in the condensed interim consolidated financial statements was recalculated retrospectively.

(in thousands of PLN)

4.2.3. Impact exerted by the differences on the condensed interim consolidated financial statements

Assets	31 March 2015 *(historical)*	Adjustment	31 March 2015 *(restated)*	1 January 2015 *(approved)*	Adjustment	1 January 2015 *(restated)*
Goodwill	749,340	(1,135) [1)]	748,205	785,663	(16,619) [1)]	769,044
Receivables, including receivables due under insurance contracts	3,633,345	1,135 [1)]	3,634,480	3,068,813	16,619 [1)]	3,085,432
Total assets	**71,741,982**	**-**	**71,741,982**	**67,572,761**	**-**	**67,572,761**

Equity and liabilities	31 March 2015 *(historical)*	Adjustment	31 March 2015 *(restated)*	1 January 2015 *(approved)*	Adjustment	1 January 2015 *(restated)*
Total equity	**14,084,460**	**-**	**14,084,460**	**13,167,628**	**-**	**13,167,628**
Liabilities						
Investment contracts	953,615	(953,615) [2)]	item deleted	1,108,107	(1,108,107) [2)]	item deleted
- with guaranteed and fixed terms and conditions	412,670	(412,670) [2)]	item deleted	520,840	(520,840) [2)]	item deleted
- for the client's account and risk	540,945	(540,945) [2)]	item deleted	587,267	(587,267) [2)]	item deleted
Financial liabilities	-	12,523,413 [2)]	12,523,413	-	9,403,244 [2)]	9,403,244
Derivatives	597,721	(597,721) [2)]	item deleted	625,844	(625,844) [2)]	item deleted
Liabilities on the issue of own debt securities	2,048,883	(2,048,883) [2)]	item deleted	2,127,527	(2,127,527) [2)]	item deleted
Other liabilities	12,487,124	(8,923,194) [2)]	3,563,930	9,361,277	(5,541,766) [2)]	3,819,511
Total liabilities	**57,657,522**	**-**	**57,657,522**	**54,405,133**	**-**	**54,405,133**
Total equity and liabilities	**71,741,982**	**-**	**71,741,982**	**67,572,761**	**-**	**67,572,761**

Selected line items of the consolidated profit and loss account	1 January – 31 March 2015 *(historical)*	Adjustment	1 January – 31 March 2015 *(restated)*
Net investment income	354,845	91,705 [2)]	446,550
Net change in the fair value of assets and liabilities measured at fair value	478,404	(18,396) [2)]	460,008
Interest expense	-	(35,427) [2)]	(35,427)
Movement in measurement of investment contracts	(22,111)	22,111 [2)]	-
Operating profit	**1,094,029**	**59,993** [2)]	**1,154,022**
Financial expenses	59,993	(59,993) [2)]	item deleted
Profit before tax	**1,154,205**	**-**	**1,154,205**

[1)] change is presented in item 4.2.2.
[2)] change is presented in item 4.2.1.

5. Key estimates and judgments

The critical estimates and judgments were presented in the PZU Group's consolidated financial statements for 2015.

6. Corrections of errors from previous years

During the 3-month period from 1 January to 31 March 2016, no corrections were made of errors from previous years.

7. Material events after the end of the reporting period

7.1 Issuance of subordinated bonds by Alior Bank

On 12 April 2016, Alior Bank received information about KNF's approval of its issue prospectus prepared in connection with public offerings in the territory of the Republic of Poland of up to 800,000 unsecured subordinated bearer bonds with a par value of PLN 1,000 each. The bonds will be issued under the Public Subordinated Bond Issue Program. Alior Bank will apply for admission and introduction of up to 800,000 bonds to trading on the regulated market operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange) within the framework of the Catalyst system.

On 13 April 2016, the Management Board of Alior Bank established the final terms and conditions of the series P1A bonds offering and, on 19 April 2016, of the series P1B bonds offering:

	Par value (PLN 000s)	Interest rate	Allotment date	Maturity date
P1A series bonds	150,000	5% – in the first interest period WIBOR 6M + 3.25% – starting from the second interest period	18 April 2016	16 May 2022
P1B series bonds	70,000	5% – in the first interest period WIBOR 6M + 3.00% – starting from the second interest period	25 April 2016	16 May 2024

On 25 April 2016, the Management Board of Krajowy Depozyt Papierów Wartościowych (National Depository for Securities) adopted a resolution to register series P1A bonds with effect from 27 April 2016. Accordingly, 27 April 2016 is considered the bonds issue date.

7.2 Alior Bank's acquisition of Powszechna Spółdzielcza Kasa Oszczędnościowo – Kredytowa in Knurów (Savings & Loans)

On 26 April 2016 the Polish FSA made the decision on Alior Bank's acquisition of Powszechna Spółdzielcza Kasa Oszczędnościowo – Kredytowa in Knurów ("Powszechna SKOK" - Savings & Loans). On 27 April 2016 Alior Bank took over management of Powszechna SKOK's assets. As of 1 June 2016 Powszechna SKOK will be acquired by Alior Bank as the acquiring bank. Up to the date of its acquisition by Alior Bank, Powszechna SKOK will do business and offer its members the full range of services rendered to date.

(in thousands of PLN)

8. Supplementary notes to the condensed interim consolidated financial statements

8.1 Gross written premiums

Gross written premiums	1 January – 31 March 2016	1 January – 31 March 2015
Gross written premiums in non-life insurance	2,844,903	2,664,131
In direct insurance	2,838,917	2,652,935
In indirect insurance	5,986	11,196
Gross written premiums in life insurance	1,955,701	2,016,696
Individual premiums	750,461	837,885
Group insurance premiums	1,205,240	1,178,811
Gross written premiums, total	**4,800,604**	**4,680,827**

Gross written premiums in direct non-life insurance (by accounting classes prescribed by section II of the attachment to the Insurance Activity Act)	1 January – 31 March 2016	1 January – 31 March 2015
Accident and sickness insurance (class 1 and 2)	140,027	159,138
Motor third party liability insurance (class 10)	924,549	783,515
Other motor insurance (class 3)	752,490	639,176
Marine, air and cargo insurance (classes 4, 5, 6, 7)	37,422	18,504
Insurance against fire and other property damage (classes 8 and 9)	650,703	727,199
TPL insurance (classes 11, 12, 13)	211,466	223,297
Credit and guarantee insurance (classes 14, 15)	16,405	18,408
Assistance (class 18)	85,643	71,301
Legal protection (class 17)	1,863	347
Other (class 16)	18,349	12,050
Total	**2,838,917**	**2,652,935**

(in thousands of PLN)

8.2 Revenue from commissions and fees

Revenues from commissions and fees	1 January – 31 March 2016	1 January – 31 March 2015
Banking activity	137,963	-
Brokerage fees	17,457	-
Payment card and credit card services	24,483	-
Fees on account of insurance intermediacy activities	21,338	-
Credits and loans	13,637	-
Bank account-related services	25,362	-
Transfers	8,898	-
Other commission	26,788	-
Pension insurance	23,934	26,355
Commissions on distribution fees	1,356	1,348
Commissions on managing assets of an open-end pension fund	22,578	25,007
Revenue from fees relating to investment contracts for the client's account and risk	1,429	2,415
Revenue and payments received from funds and mutual fund companies	21,598	19,674
Revenue from commissions and fees, total	**184,924**	**48,444**

(in thousands of PLN)

8.3 Net investment income

Net investment income	1 January – 31 March 2016	1 January – 31 March 2015
Interest income, including:	950,139	328,159
Bank loans	509,437	-
Financial assets available for sale	34,962	21,194
Financial assets held to maturity	199,882	232,835
Borrowings	79,377	73,147
Receivables purchased	6,009	-
Hedging derivatives	113,912	-
Receivables, including receivables due under insurance contracts	1,956	375
Cash and cash equivalents	4,604	608
Dividend income, including:	1,158	399
Financial assets classified for measurement at fair value through profit or loss upon first recognition	226	304
Financial assets held for trading	-	37
Financial assets available for sale	932	58
Income on investment property	55,750	48,871
Exchange differences, including:	(10,456)	109,758
Financial assets held to maturity	117	(2,946)
Financial assets available for sale	(5,684)	(10,786)
Borrowings	(5,491)	6,107
Settlements, including settlements on account of insurance contracts	(24,122)	(9,508)
Cash and cash equivalents	(10,866)	35,186
Financial liabilities	(11,391)	86,496
Other	46,981	5,209
Other, including:	(28,859)	(40,637)
Investment activity expenses	(8,506)	(7,687)
Investment property maintenance expenses	(27,146)	(39,526)
Other	6,793	6,576
Net investment income, total	**967,732**	**446,550**

(in thousands of PLN)

8.4 Net result on the realization of investments and impairment charges

Net result on the realization of investments and impairment charges	1 January – 31 March 2016	1 January – 31 March 2015
Net result on the realization of investments	88,427	**132,897**
Financial assets measured at fair value through profit or loss – classified as such upon first recognition, including:	(19,832)	52,632
Equity instruments	(71,975)	(28,226)
Debt securities	52,143	80,858
Financial assets held for trading, including:	61,909	72,292
Equity instruments	(41,424)	19,832
Debt securities	31,190	5,157
Derivatives	72,143	47,303
Financial assets available for sale, including:	49,810	17,361
Equity instruments	20	25
Debt securities	49,790	17,336
Financial assets held to maturity, including:	-	(58)
Debt securities held to maturity	-	(58)
Borrowings	1,365	24
Receivables, including receivables due under insurance contracts	(6,162)	(11,808)
Cash and cash equivalents	-	(74)
Investment properties	1,088	2,528
Other	249	-
Impairment charges	**(179,169)**	**(15,113)**
Financial assets available for sale, including:	(6,975)	-
Debt instruments	(6,975)	-
Borrowings	(160,476)	(935)
Receivables from clients on account of loans	(160,476)	-
Term deposits with credit institutions	-	(935)
Receivables, including receivables due under insurance contracts	(11,718)	(12,814)
Cash and cash equivalents	-	(1,364)
Net result on the realization of investments and impairment charges, total	**(90,742)**	**117,784**

8.5 Net change in the fair value of assets and liabilities measured at fair value

Net change in the fair value of assets and liabilities measured at fair value	1 January – 31 March 2016	1 January – 31 March 2015
Financial instruments measured at fair value through profit or loss – classified in that category upon first recognition, including:	138,647	228,265
Equity instruments	68,267	202,673
Debt securities	77,882	61,109
Measurement of liabilities to members of consolidated mutual funds	(6,212)	(17,121)
Investment contracts for the client's account and risk (*unit-linked*)	(1,290)	(18,396)
Financial instruments held for trading, including:	19,590	239,424
Equity instruments	23,116	175,107
Debt securities	27,126	15,600
Derivatives	(30,652)	48,717
Investment properties	(3,899)	(7,681)
Net movement in the fair value of assets and liabilities measured at fair value	**154,338**	**460,008**

(in thousands of PLN)

8.6 Other operating income

Other operating income	1 January – 31 March 2016	1 January – 31 March 2015
Revenues on management of third party assets	2,996	-
Commissions for acting as an emergency adjuster	2,010	2,076
Reversal of provisions	3,364	390
Release of impairment charges for non-financial assets	4,676	-
Reinsurance commissions and profit-sharing	12,581	5,864
Revenues on the sales of products, merchandise and services by non-insurance companies	92,518	82,089
Revenues from direct claims handling on behalf of other insurance undertakings	53,308	32,534
Interest for late payment of amounts due under direct insurance and outward reinsurance	8,403	12,978
Other	24,227	30,809
Other operating income, total	**204,083**	**166,740**

8.7 Claims and movement in technical provisions

Claims and change in technical provisions	1 January – 31 March 2016	1 January – 31 March 2015
Claims and movement in technical provisions in non-life insurance	1,599,474	1,322,364
Reinsurers' share in claims and in the movement in technical provisions in non-life insurance	(29,804)	(61,642)
Claims and movement in technical provisions in life insurance	1,496,981	1,785,171
Reinsurers' share in claims and movement in technical provisions in life insurance	(23)	(35)
Claims and movement in technical provisions, total	**3,066,628**	**3,045,858**

8.8 Fee and commission expense

Fee and commission expense	1 January – 31 March 2016	1 January – 31 March 2015
Brokerage fees	688	-
Costs of card and ATM transactions, including card issue costs	15,056	-
Insurance of banking products	5,915	-
Fees for the provision of ATMs	5,259	-
Fees under contracts to perform specific actions	2,259	-
Costs of compensations and awards for bank clients	5,143	-
Commissions paid to agents in banking activity	4,787	-
Assistance services for bank clients	1,279	-
Bank clients acquisition costs	2,197	-
Other commission	8,923	-
Total fee and commission expense	**51,506**	**-**

(in thousands of PLN)

8.9 Interest expense

Interest expense	1 January – 31 March 2016	1 January – 31 March 2015
Term deposits	106,664	-
Current deposits	7,621	-
Hedging derivatives	103,680	-
Repurchase transactions	11,056	21,689
Outstanding own debt securities	41,742	7,974
Bank loans contracted by PZU Group companies	998	1,996
Investment contracts with guaranteed and fixed terms and conditions	535	3,715
Other	2,025	53
Total interest expense	**274,321**	**35,427**

8.10 Administrative, acquisition and claims handling expenses, by type

Administrative, acquisition and claims handling expenses, by type	1 January – 31 March 2016	1 January – 31 March 2015
Consumption of materials and energy	53,949	33,412
External services	158,077	159,453
Taxes and fees	14,716	18,247
Employee expenses	564,053	380,059
Depreciation of property, plant and equipment	37,595	19,213
Amortization of intangible assets	38,630	22,268
Other, including:	653,660	577,166
- commission on direct activity	497,529	445,422
- advertising	23,301	23,659
- commissions on indirect activity	53,274	53,158
- other	79,556	54,927
Change in capitalized acquisition expenses	(68,493)	(50,984)
Administrative, acquisition and claims handling expenses, total	**1,452,187**	**1,158,834**

8.11 Other operating expenses

Other operating expenses	1 January – 31 March 2016	1 January – 31 March 2015
Amortization of intangible assets purchased in company acquisition transactions	22,671	59,579
Direct claims handling expenses on behalf of other insurance undertakings	56,035	33,981
Establishment of provisions	8,785	27,588
Recognition of impairment losses for non-financial assets	7,352	35
Expenses of the core business of non-insurance and non-banking companies	114,369	104,692
Expenditures for prevention activity	20,931	25,938
Compulsory payments to insurance and banking market institutions	22,435	19,002
Costs of IT services	13,077	28
Insurance Guarantee Fund	14,445	9,646
Bank Guarantee Fund	18,908	-
Fee to the National Fire Brigade Headquarters and Association of Voluntary Fire Brigades	20,660	21,944
Tax on financial institutions	67,317	-
Other	32,790	47,704
Other operating expenses, total	**419,775**	**350,137**

(in thousands of PLN)

8.12 Earnings per share

Earnings per share	1 January – 31 March 2016	1 January – 31 March 2015
Net profit on continuing operations attributed to holders of the parent company's equity	486,598	941,332
Weighted average basic and diluted number of ordinary shares	863,489,477	863,519,490 [1)]
Number of outstanding shares	863,523,000	863,523,000 [1)]
Amount of treasury stock (held by PZU's subsidiaries)	(33,523)	(3,510) [1)]
Basic and diluted earnings (losses) per ordinary share (in PLN)	0.56	1.09 [1)]

[1)] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

In the 3-month period ended 31 March 2016, there were no discontinued operations of any kind.

In the 3-month period ended 31 March 2016, there were no transactions or events resulting in the dilution of earnings per share.

8.13 Income tax in other comprehensive income

Income tax on other total income items	1 January – 31 March 2016	1 January – 31 March 2015
Other gross comprehensive income	(11,551)	(19,218)
Income tax	2,185	(5,205)
Measurement of financial instruments available for sale and cash flow hedges	2,203	(5,134)
Reclassification of real property from property, plant and equipment to investment property	(18)	(71)
Other net comprehensive income	**(9,366)**	**(24,423)**

8.14 Goodwill

Goodwill	31 March 2016	31 December 2015	31 March 2015
Alior Bank	720,569	720,569	-
Lietuvos Draudimas AB	359,349	358,766	344,245
Mass insurance segment in non-life insurance (Link4)	221,377	221,377	221,377
Codan branch	112,485	112,303	107,752
AAS Balta	38,312	38,251	36,703
Medical companies	51,450	49,633	29,580
Other	8,240	5,546	8,548
Total goodwill	**1,511,782**	**1,506,445**	**748,205**

In the period of 3 months ended 31 March 2016 and in 2015, there were no impairment charges related to goodwill.

(in thousands of PLN)

8.15 Other assets

Other assets	31 March 2016	31 December 2015	31 March 2015
Reinsurance settlements	303,487	339,463	60,110
Deferred IT expenses	31,232	31,581	27,268
Posted direct claims handling receivables	42,331	41,582	-
Inventory	139,533	125,260	110,078
Other assets	263,423	161,078	94,191
Other assets, total	**780,006**	**698,964**	**291,647**

[1)] including PLN 50,501 thousand as the estimated subsidy from the Bank Guarantee Fund related to Alior Bank's acquisition of SKOK presented in item 1.4.1.3.

8.16 Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	31 March 2016	31 December 2015	31 March 2015
Unearned premiums provision	300,358	339,255	291,219
Provisions for outstanding claims, including:	577,229	579,173	318,538
- for reported claims	534,253	527,773	259,680
- for claims not reported (IBNR)	21,337	28,973	36,970
- for claims handling costs	21,639	22,427	21,888
Provision for capitalized value of annuities	172,198	178,424	162,027
Reinsurers' share in technical provisions, total	**1,049,785**	**1,096,852**	**771,784**

(in thousands of PLN)

8.17 Entities measured using the equity method

Associates and joint ventures	31 March 2016	31 December 2015	31 March 2015	31 March 2016	31 December 2015	31 March 2015	31 March 2016	31 December 2015	31 March 2015
Name of the entity	EMC Instytut Medyczny SA			GSU Pomoc Górniczy Klub Ubezpieczonych SA			Armatura Tower Sp. z o.o.		
Nature of PZU's relationship with the entity	Associate – non-strategic			Associate – non-strategic			Joint venture – non-strategic		
Registered office of the entity	Wroclaw			Tychy			Kraków		
Equity stake in the entity	28.31%	28.31%	28.58%	30.00%	30.00%	30.00%	50.00%	50.00%	50.00%
Percentage of votes in the entity	25.44%	25.44%	25.41%	30.00%	30.00%	30.00%	50.00%	50.00%	50.00%
Valuation method in the consolidated financial statements	Equity method			Equity method			Equity method		
Accounting standard used by the entity	IFRS			PAS			IFRS		
Carrying amount of the exposure to the entity	53,060	53,479	65,900	572	575	566	9	11	16
Fair value of the exposure to the entity	55,283	55,283	54,077	None – unlisted entity			None – unlisted entity		
Value of dividends received from the entity	-	-	-	-	8	-	-	-	-
Key financial highlights									
Assets, including:	254,475	252,378	243,182	2,910	2,882	2,621	22	22	34
Short-term assets, including:	57,127	54,529	51,097	2,486	2,424	2,045	22	22	34
Cash and cash equivalents	19,290	16,350	17,752	2,299	2,397	1,652	15	16	30
Long-term assets	197,348	197,849	192,085	424	458	576	-	-	-

(in thousands of PLN)

Associates and joint ventures	31 March 2016	31 December 2015	31 March 2015	31 March 2016	31 December 2015	31 March 2015	31 March 2016	31 December 2015	31 March 2015
Equity	151,444	152,873	137,144	1,904	1,915	1,888	18	22	31
Liabilities, including:	103,031	99,505	106,038	1,006	967	733	4	-	3
Short-term liabilities, including:	66,305	56,497	55,777	1,006	967	733	-	-	-
Short-term financial liabilities	23,758	21,934	14,688	-	-	-	-	-	-
Long-term liabilities, including:	36,726	43,008	50,261	-	-	-	-	-	-
Long-term financial liabilities	18,560	19,760	30,325	-	-	-	-	-	-
								-	
Revenues on core business	67,657	258,070	66,749	415	2,056	509	-	-	-
Depreciation	3,493	13,141	3,345	35	154	40	-	-	-
Interest income	15	280	48	16	76	22	-	-	-
Interest expense	452	1,969	542	-	-	-	-	-	-
Income tax	378	551	676	5	21	-	-	-	-
Comprehensive income, incl.:	(1,467)	(4,337)	(106)	(11)	(18)	(72)	(4)	(13)	(4)
Net financial result, including:	(1,460)	(4,498)	(64)	(11)	(18)	(72)	(4)	(13)	(4)
Net financial result on continuing operations	(1,460)	(4,498)	(64)	(11)	(18)	(72)	(4)	(13)	(4)
Net financial result on discontinued operations	-	-	-	-	-	-	-	-	-
Other comprehensive income	(7)	161	(42)	-	-	-	-	-	-

There are no restrictions (e.g. resulting from any findings regarding borrowings, regulatory requirements or agreements) as to the ability of transferring funds by the associates or the joint venture in the form of cash dividends.

(in thousands of PLN)

8.18 Financial assets

In the 3-month period ended 31 March 2016, it wasn't made reclassification of financial instruments from groups carried at fair value to groups carried at cost or amortized cost

Due to a change in the purpose of use of certain assets, from 1 January 2015 some of the assets were reclassified from assets available for sale to assets held to maturity. The carrying amount of the assets at the time of reclassification was PLN 83,620 thousand. The carrying amount as at 31 March 2016 was PLN 82,580 thousand.

The transfer described above was the sole such type reclassification that was made in 2015.

8.18.1. Financial instruments held to maturity

Financial instruments held to maturity	31 March 2016	31 December 2015	31 March 2015
Instruments for which fair value can be determined	**17,511,823**	**17,370,126**	**20,435,452**
Debt securities	17,511,823	17,370,126	20,435,452
Government securities	17,291,993	17,150,858	20,253,435
Fixed rate	16,064,380	15,919,711	19,017,786
Floating rate	1,227,613	1,231,147	1,235,649
Other	219,830	219,268	182,017
Listed on a regulated market	95,914	96,481	61,131
Fixed rate	95,914	96,481	61,131
Not listed on a regulated market	123,916	122,787	120,886
Floating rate	123,916	122,787	120,886
Financial assets held to maturity, total	**17,511,823**	**17,370,126**	**20,435,452**

(in thousands of PLN)

8.18.2. Financial instruments available for sale

Financial instruments available for sale	31 March 2016	31 December 2015	31 March 2015
Instruments for which fair value can be determined	**8,191,225**	**7,727,973**	**3,211,516**
Equity instruments	552,707	582,223	599,091
Listed on a regulated market	189,814	195,689	376,706
Not listed on a regulated market	362,893	386,534	222,385
Debt instruments	7,638,518	7,145,750	2,612,425
Government securities	6,639,025	6,317,916	2,171,228
Fixed rate	4,619,852	4,659,631	2,067,030
Floating rate	2,019,173	1,658,285	104,198
Other	999,493	827,834	441,197
Listed on a regulated market	259,652	245,863	205,291
Fixed rate	216,593	202,684	163,265
Floating rate	43,059	43,179	42,026
Not listed on a regulated market	739,841	581,971	235,906
Fixed rate	169,993	-	-
Floating rate	569,848	581,971	235,906
Instruments for which fair value cannot be determined	**17,131**	**16,716**	**3,158**
Equity instruments	17,131	16,716	3,158
Not listed on a regulated market	17,131	16,716	3,158
Financial instruments available for sale, total	**8,208,356**	**7,744,689**	**3,214,674**

(in thousands of PLN)

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

Financial instruments measured at fair value through profit or loss	31 March 2016	31 December 2015	31 March 2015
Instruments classified into this category upon first recognition	**13,494,327**	**13,245,460**	**13,333,857**
Equity instruments	2,588,809	2,384,554	1,982,861
Listed on a regulated market	2,457,244	2,274,062	1,942,273
Not listed on a regulated market	131,565	110,492	40,588
Debt instruments	10,905,518	10,860,906	11,350,996
Government securities	10,685,343	10,630,780	11,188,922
Fixed rate	9,083,073	9,047,572	9,112,144
Floating rate	1,602,270	1,583,208	2,076,778
Other	220,175	230,126	162,074
Listed on a regulated market	220,175	230,126	162,074
Fixed rate	220,175	230,126	162,074
Instruments held for trading	**7,090,653**	**7,402,943**	**6,956,548**
Equity instruments	3,847,703	4,077,204	4,719,502
Listed on a regulated market	1,060,869	1,052,849	1,608,776
Not listed on a regulated market	2,786,834	3,024,355	3,110,726
Debt instruments	2,376,120	2,352,363	1,697,556
Government securities	2,301,745	2,278,369	1,622,623
Fixed rate	2,262,346	2,228,895	1,616,247
Floating rate	39,399	49,474	6,376
Other	74,375	73,994	74,933
Listed on a regulated market	271	311	-
Floating rate	271	311	-
Not listed on a regulated market	74,104	73,683	74,933
Floating rate	74,104	73,683	74,933
Derivatives	866,830	973,376	539,490
Financial instruments measured at fair value through profit or loss, total	**20,584,980**	**20,648,403**	**20,290,405**

8.18.4. Loans

Borrowings	31 March 2016	31 December 2015	31 March 2015
Debt securities	**2,732,563**	**2,730,607**	**2,955,217**
Government securities	5,959	6,801	22,686
Fixed rate	5,959	6,801	22,686
Other	2,726,604	2,723,806	2,932,531
Listed on a regulated market	-	-	841
Fixed rate	-	-	841
Not listed on a regulated market	2,726,604	2,723,806	2,931,690
Floating rate	2,726,604	2,723,806	2,931,690
Other, including:	**40,191,895**	**40,672,444**	**13,234,245**
Receivables from clients on account of loans	32,170,137	30,331,615	-
Buy-sell-back transactions	1,004,652	3,132,740	6,715,609
Term deposits with credit institutions	4,998,256 [1)]	5,279,044	4,160,669
Borrowings	2,018,850 [2)]	1,929,045	2,357,967
Total loans	**42,924,458**	**43,403,051**	**16,189,462**

[1)] More than 64% of term deposits in credit institutions are investments denominated in PLN and more than 31% are deposits denominated in EUR. Over 85% of term deposits will mature before the end of 30 September 2016.
[2)] 100% of borrowings are borrowings secured by pledges on shares, sureties, guarantees or tangible collateral.

(in thousands of PLN)

The fair value of buy-sell-back transactions and term deposits in credit institutions did not differ significantly from their carrying amounts due to their short-term nature.

Receivables from clients on account of loans	31 March 2016	31 December 2015
Retail segment	**17,937,882**	**16,996,641**
Operating loans	179,957	167,635
Consumer finance	8,936,647	8,538,699
Consumer finance loans	871,203	755,044
Loan to purchase securities	120,121	119,069
Overdrafts in credit card accounts	217,035	225,308
Loans for residential real estate	6,726,299	6,317,227
Other mortgage loans	855,595	845,181
Other receivables	31,025	28,478
Business segment	**14,232,255**	**13,334,974**
Operating loans	7,757,061	7,306,525
Car financing loans	59,633	70,390
Investment loans	5,715,704	5,506,929
Receivables purchased (factoring)	438,639	376,403
Other receivables	261,218	74,727
Total receivables from clients on account of loans	**32,170,137**	**30,331,615**

8.18.5. Exposure to debt securities issued by governments other than the Polish Government, by corporations and local government units

The following tables present the exposure of the PZU Group companies to debt securities issued by governments other than the Polish government, by corporations and by local government units. Financial instruments classified for inclusion in portfolios held to maturity and borrowings 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 if classified as such upon first recognition and if classified as held for trading) have been presented as measured at fair value.

Debt securities issued by governments other than the Polish government

As at 31 March 2016	Currency	Measurement method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
Bulgaria	EUR	at fair value	179,933	182,095	182,095	-
	EUR	at amortized cost	27,808	27,890	27,892	-
Croatia	EUR	at amortized cost	29,431	30,104	30,292	-
	USD	at fair value	6,092	8,302	8,302	-
Czech Republic	CZK	at fair value	89,315	88,544	88,544	-
	EUR	at fair value	77	79	79	-
Spain	EUR	at fair value	193,925	200,809	200,809	-
Ireland	EUR	at fair value	6,878	6,873	6,873	-
	EUR	at amortized cost	7,445	7,339	7,770	-
Iceland	USD	at fair value	59,782	59,763	59,763	-
Lithuania	EUR	at fair value	319,103	346,708	346,708	-
	EUR	at amortized cost	133,563	135,555	140,645	-
	USD	at fair value	4,934	6,577	6,577	-
Latvia	EUR	at fair value	52,774	56,936	56,936	-
	EUR	at amortized cost	19,024	19,477	19,675	-
	USD	at fair value	31,236	38,599	38,599	-
Germany	EUR	at fair value	18,079	18,732	18,732	-
Portugal	EUR	at fair value	117,924	115,922	115,922	-
Romania	EUR	at fair value	52,243	61,049	61,049	-

(in thousands of PLN)

As at 31 March 2016	Currency	Measurement method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
	EUR	at amortized cost	37,302	37,750	38,305	-
	RON	at fair value	56,370	56,454	56,454	-
	USD	at fair value	15,631	21,535	21,535	-
Sri Lanka	USD	at fair value	24,775	23,364	23,364	-
Turkey	USD	at fair value	98,836	96,698	96,698	-
	EUR	at fair value	623	618	618	-
Ukraine	UAH	at fair value	13,850 [1)]	10,402 [1)]	10,402 [1)]	-
	UAH	at amortized cost	24,024 [1)]	20,270 [1)]	19,351 [1)]	-
	USD	at fair value	727	673	673	-
	USD	at amortized cost	6,693	6,856	6,879	-
Hungary	EUR	at fair value	122,695	124,453	124,453	-
	EUR	at amortized cost	30,083	30,038	30,470	-
	HUF	at fair value	84,451	85,926	85,926	-
	USD	at fair value	7,801	10,682	10,682	-
other	EUR/USD	at fair value	109,423	110,396	110,396	-
	EUR	at amortized cost	7,990	7,980	8,109	-
Total			**1,990,840**	**2,055,448**	**2,061,577**	**-**

[1)] In the case of these bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of the bonds). The purchase price shows the actual price paid and does not take into account any repayments of the par value.

As at 31 December 2015	Currency	Portfolio classification	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
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	-
	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	-

(in thousands of PLN)

As at 31 December 2015	Currency	Portfolio classification	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
United States	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] In the case of these bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of the bonds). The purchase price shows the actual price paid by the company and does not take into account any repayments of the par value.

As at 31 March 2015	Currency	Measurement method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
Bulgaria	EUR	at fair value	44,927	46,015	46,015	-
	EUR	at amortized cost	8,203	8,316	8,343	-
Croatia	USD	at fair value	13,489	17,171	17,171	-
	EUR	at fair value	32,659	31,878	31,878	-
	EUR	at amortized cost	11,165	11,416	11,441	-
Cyprus	EUR	at fair value	20,663	21,817	21,817	-
Montenegro	EUR	at fair value	26,573	26,859	26,859	-
France	EUR	at fair value	39,542	38,632	38,632	-
	CHF	at fair value	17,160	15,266	15,266	-
Iceland	USD	at fair value	24,745	32,090	32,090	-
Lithuania	EUR	at fair value	432,118	469,200	469,200	-
	USD	at fair value	4,927	6,949	6,949	-
	EUR	at amortized cost	44,956	44,922	47,593	-
Latvia	EUR	at fair value	69,755	72,387	72,387	-
	USD	at fair value	31,236	39,067	39,067	-
	EUR	at amortized cost	16,883	16,869	17,001	-
Mexico	EUR	at fair value	32,635	34,385	34,385	-
Germany	EUR	at fair value	233,343	232,427	232,427	-
Romania	EUR	at fair value	124,150	136,921	136,921	-
	RON	at fair value	17,163	17,867	17,867	-
	USD	at fair value	15,631	22,148	22,148	-
	EUR	at amortized cost	11,035	11,230	11,206	-
Serbia	USD	at fair value	26,865	32,008	32,008	-
Ukraine	USD	at fair value	1,589	1,572	1,572	-
	UAH	at fair value	9,475	5,999	5,999	-
	UAH	at amortized cost	26,126 [1]	6,482 [1]	6,319	-
	USD	at amortized cost	13,814	16,203	16,218	-
Hungary	EUR	at fair value	135,476	136,097	136,097	-
	HUF	at fair value	271,095	278,040	278,040	-
	USD	at fair value	7,801	11,030	11,030	-
	EUR	at amortized cost	9,085	9,214	9,270	-
other	EUR/USD	at fair value	42,792	47,366	47,366	-
	EUR	at amortized cost	2,724	2,727	2,718	-
Total			**1,819,800**	**1,900,570**	**1,903,300**	**-**

[1] In the case of these bonds, every 6 months the par value of the bonds in a fixed amount of UAH 100 is repaid (i.e. 10% of the par value of the bonds). The purchase price shows the actual price paid and does not take into account any repayments of the par value.

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

(in thousands of PLN)

8.18.6. Debt securities issued by corporations and local government units

As at 31 March 2016	Measurement method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
Companies from the WIG-Banks Index	at fair value	332,747	363,472	363,472	-
	at amortized cost	1,520,560	1,529,367	1,559,131	-
Companies from the WIG-Fuels Index	at fair value	304,464	308,279	308,279	-
	at amortized cost	700,000	705,942	715,647	-
Companies from the WIG-Chemicals Index	at amortized cost	5,795	5,808	5,792	-
Companies from the WIG-Energy Index	at amortized cost	315,000	318,444	317,871	-
Privately held domestic banks	at amortized cost	20,000	20,517	22,368	-
Mortgage banks	at fair value	41,983	43,060	43,060	-
Foreign banks	at fair value	3,710	3,664	3,664	-
	at amortized cost	71,985	74,593	76,889	1,142
Domestic local government	at fair value	45,632	57,889	57,889	-
	at amortized cost	50,000	50,062	56,851	-
Companies from the WIG-Raw Materials	at fair value	51,200	51,672	51,672	-
	at amortized cost	195,000	153,406	152,850	42,836
Other	at fair value	322,531	296,014	296,014	18,605
	at amortized cost	88,375	88,295	88,932	-
National Bank of Poland	at fair value	169,950	169,993	169,993	-
Total		**4,238,932**	**4,240,477**	**4,290,374**	**62,583**

As at 31 December 2015	Measurement method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
Companies from the WIG-Banks Index	at fair value	322,868	325,778	325,778	-
	at amortized cost	1,520,556	1,534,875	1,564,538	-
Companies from the WIG-Fuels Index	at fair value	304,464	309,115	309,115	-
	at amortized cost	700,000	700,686	710,287	-
Companies from the WIG-Chemicals Index	at amortized cost	5,795	5,857	5,872	-
Companies from the WIG-Energy Index	at amortized cost	315,000	316,322	312,776	-
Privately held domestic banks	at amortized cost	20,000	20,250	22,132	-
Mortgage banks	at fair value	41,983	43,179	43,179	-
Foreign banks	at fair value	3,710	3,876	3,876	-
	at amortized cost	71,985	73,999	76,542	1,142
Domestic local government	at fair value	45,632	56,592	56,592	-
	at amortized cost	50,000	52,501	59,467	-
Companies from the WIG-Raw Materials	at fair value	51,200	51,367	51,367	-
	at amortized cost	195,000	151,069	151,139	42,836
Other – covered by write-offs	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 thousands of PLN)

As at 31 March 2015	Valuation method	Purchase price	Carrying amount	Measurement at fair value	Impairment charges
Companies from the WIG-Banks Index	at fair value	207,496	204,417	204,417	-
	at amortized cost	1,616,283	1,626,206	1,686,317	-
Companies from the WIG-Fuels Index	at fair value	303,226	310,686	310,686	-
	at amortized cost	700,000	706,425	721,466	-
Companies from the WIG-Chemicals Index	at amortized cost	1,211	1,174	1,193	-
Companies from the WIG-Energy Index	at amortized cost	380,000	384,371	364,601	-
Privately held domestic banks	at amortized cost	20,000	20,555	23,582	-
Foreign banks	at fair value	23,713	23,252	23,252	-
	at amortized cost	73,920	72,252	77,212	1,142
Mortgage banks	at fair value	41,983	42,026	42,026	-
Domestic local government	at fair value	45,632	59,706	59,706	-
	at amortized cost	50,000	50,055	58,540	-
Other	at fair value	38,703	38,117	38,117	-
	at amortized cost	62,704	62,692	63,315	-
Companies from the WIG-Raw Materials	at amortized cost	200,000	190,818	204,324	10,144
Other	at fair value	11,630	-	-	11,630
Total		**3,776,501**	**3,792,752**	**3,878,754**	**22,916**

8.18.7. Derivatives

Derivatives – assets	31 March 2016	31 December 2015	31 March 2015
Interest rate derivatives	**846,023**	**891,266**	**470,619**
Instruments accounted for as cash flow hedges – unlisted instruments, including:	161,441	139,578	-
- SWAP transactions	161,441	139,578	-
Instruments carried as held for trading, including:	684,582	751,688	470,619
Unlisted (OTC) instruments, including:	684,582	751,688	470,619
- forward contracts	17,767	22,168	4,628
- SWAP transactions	661,484	725,722	465,991
- call options	5,331	3,798	-
Foreign exchange derivatives - recognized as held for trading	**131,850**	**170,129**	**30,771**
Unlisted (OTC) instruments, including:	131,850	170,129	30,771
- forward contracts	42,238	54,620	5,391
- SWAP transactions	80,509	106,385	24,710
- call options	9,103	9,124	669
- put options	-	-	1
Derivatives related to equity and commodity prices - recognized as held for trading	**50,398**	**51,559**	**38,100**
Listed instruments, including:	4,172	131	9,188
- forward contracts	-	-	8,260
- call options	1,631	-	928
- put options	2,541	131	-
Unlisted (OTC) instruments, including:	46,226	51,428	28,912
- call options	45,616	51,428	28,912
- put options	610	-	-
Derivatives – assets, total	**1,028,271**	**1,112,954**	**539,490**

(in thousands of PLN)

Derivatives – liabilities	31 March 2016	31 December 2015	31 March 2015
Interest rate derivatives	**774,956**	**846,515**	**591,975**
Instruments accounted for as cash flow hedges – unlisted instruments, including:	507	-	-
- SWAP transactions	507	-	-
Instruments carried as held for trading, including:	774,449	846,515	591,975
Listed instruments, including:	19,104	20,362	20,788
- forward contracts	19,104	20,362	20,788
Unlisted (OTC) instruments, including:	755,345	826,153	571,187
- forward contracts	15,496	19,905	4,223
- SWAP transactions	734,507	802,450	566,964
- put options	5,342	3,798	-
Foreign exchange derivatives - recognized as held for trading	**97,390**	**63,213**	**5,626**
Unlisted (OTC) instruments, including:	97,390	63,213	5,626
- forward contracts	17,695	7,747	82
- SWAP transactions	70,568	46,339	5,544
- put options	9,127	9,127	-
Derivatives related to equity and commodity prices - recognized as held for trading	**24,116**	**30,756**	**120**
Listed instruments, including:	-	-	120
- forward contracts	-	-	120
Unlisted (OTC) instruments, including:	24,116	30,756	-
- call options	878	-	-
- put options	23,238	30,756	
Derivatives – liabilities, total	**896,462**	**940,484**	**597,721**

8.18.8. Changes in the economic situation and business conditions with material effect on the fair value of financial assets and liabilities

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

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

Information on changes to the classification of financial assets is presented in item 8.18.

8.19 Fair value

8.19.1. Description of valuation techniques

8.19.1.1. Debt securities

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

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

8.19.1.2. Equity-based financial assets

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

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

8.19.1.3. Derivatives

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

The fair value of derivatives not listed on an active market, including forward contracts and interest rate swaps is measured using the discounted future cash flow method. For the discounting of cash flows, interest rates are used from the yield curves assigned to the relevant type of financial instrument and currency, construed on the basis of available market data.

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

8.19.1.4. Receivables from clients on account of loans

The fair value of receivables from clients (excluding overdrafts) is calculated by comparing the margins generated on newly granted loans (in the month preceding the date of the consolidated financial statements) with the margins on the entire loan portfolio. If the margins on newly granted loans are higher than the margins on the existing portfolio, the fair value of the loan portfolio is lower than its carrying amount.

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

8.19.1.5. Financial liabilities

Liabilities to clients

Because deposits are accepted in the normal course of business on a daily basis, and thus their terms and conditions are similar to the current market terms and conditions for identical transactions and the time to maturity of these items is short, it is assumed that for liabilities to clients with maturity of up to 1 year the fair value does not differ significantly from the carrying amount.

Liabilities on the issue of own debt securities and subordinated debt

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

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

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

Liabilities to members of consolidated mutual funds

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

8.19.2. Fair value hierarchy

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

- Level I – assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. This level includes:
  - liquid listed debt securities;
  - listed shares and investment certificates;
  - listed derivatives;
- Level II – assets and liabilities whose measurement is based on input data other than listed prices included within level I, which can be observed on the market, either directly (as prices) or indirectly (derived from prices). This level includes:
  - unlisted debt securities and non-liquid listed debt securities (including non-treasury debt securities issued by other financial entities, local government and non-financial entities);
  - derivatives other than those listed on stock exchanges;
  - mutual fund units;
  - liabilities to members of consolidated mutual funds;
  - investment contracts for the client's account and risk.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes:

(in thousands of PLN)

– receivables from clients on account of loans and liabilities to clients on account of deposits.

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

Assets and liabilities measured at fair value as at 31 March 2016	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	6,999,435	1,191,790	-	8,191,225
Equity instruments	189,814	362,893	-	552,707
Debt securities	6,809,621	828,897	-	7,638,518
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	13,335,096	159,231	-	13,494,327
Equity instruments	2,458,523	130,286	-	2,588,809
Debt securities	10,876,573	28,945	-	10,905,518
Financial instruments measured at fair value through profit or loss – held for trading	3,344,003	3,746,650	-	7,090,653
Equity instruments	1,060,982	2,786,721	-	3,847,703
Debt securities	2,273,254	102,866	-	2,376,120
Derivatives	9,767	857,063	-	866,830
Hedging derivatives	-	161,441	-	161,441
Liabilities				
Derivatives	30,051	866,411	-	896,462
Liabilities to members of consolidated mutual funds	-	677,240	-	677,240
Investment contracts for the client's account and risk (*unit-linked*)	-	375,521	-	375,521

Assets and liabilities measured at fair value as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Financial assets available for sale	6,687,993	1,039,980	-	7,727,973
Equity instruments	195,689	386,534	-	582,223
Debt securities	6,492,304	653,446	-	7,145,750
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	13,107,367	138,093	-	13,245,460
Equity instruments	2,274,757	109,797	-	2,384,554
Debt securities	10,832,610	28,296	-	10,860,906
Financial instruments measured at fair value through profit or loss – held for trading	3,341,659	4,061,284	-	7,402,943
Equity instruments	1,053,043	3,024,161	-	4,077,204
Debt securities	2,278,680	73,683	-	2,352,363
Derivatives	9,936	963,440	-	973,376
Hedging derivatives	-	139,578	-	139,578
Liabilities				
Derivatives	36,078	904,406	-	940,484
Liabilities to members of consolidated mutual funds	-	656,449	-	656,449
Investment contracts for the client's account and risk (*unit-linked*)	-	392,914	-	392,914

(in thousands of PLN)

Assets and liabilities measured at fair value as at 31 March 2015	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	2,681,346	530,170	-	3,211,516
Equity instruments	376,706	222,385	-	599,091
Debt securities	2,304,640	307,785	-	2,612,425
Financial instruments measured at fair value through profit or loss – classified as such upon first recognition	13,263,439	70,418	-	13,333,857
Equity instruments	1,942,296	40,565	-	1,982,861
Debt securities	11,321,143	29,853	-	11,350,996
Financial instruments measured at fair value through profit or loss – held for trading	3,240,587	3,715,961	-	6,956,548
Equity instruments	1,608,776	3,110,726	-	4,719,502
Debt securities	1,622,623	74,933	-	1,697,556
Derivatives	9,188	530,302	-	539,490
Liabilities				
Derivatives	20,908	576,813	-	597,721
Liabilities to members of consolidated mutual funds	-	1,098,437	-	1,098,437
Investment contracts for client's account and risk (unit-linked)	-	540,945	-	540,945

Assets and liabilities for which the fair value is disclosed as at 31 March 2016	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	55,283	-	-	55,283
Financial assets held to maturity	20,009,140	154,942	-	20,164,082
Borrowings				
Debt securities	-	2,772,777	-	2,772,777
Receivables from clients on account of loans	-	-	31,747,582	31,747,582
Borrowings	-	2,012,165	-	2,012,165
Liabilities				
Liabilities to banks	-	250,740	139,473	390,213
Amounts payable to clients	-	-	35,775,835	35,775,835
Liabilities on the issue of own debt securities	-	3,575,954	-	3,575,954
Subordinated debt (Alior Bank)	-	800,761	-	800,761

Assets and liabilities for which the fair value is disclosed as at 31 December 2015	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	55,283	-	-	55,283
Financial assets held to maturity	19,665,121	155,209	-	19,820,330
Borrowings				
Debt securities	-	2,768,285	-	2,768,285
Receivables from clients on account of loans	-	-	30,331,615	30,331,615
Borrowings	-	1,926,664	-	1,926,664
Liabilities				
Liabilities to banks	-	475,809	124,831	600,640
Amounts payable to clients	-	-	33,665,013	33,665,013
Liabilities on the issue of own debt securities	-	3,573,225	-	3,573,225
Subordinated debt (Alior Bank)	-	758,560	-	758,560

(in thousands of PLN)

Assets and liabilities for which the fair value is disclosed as at 31 March 2015	Level I	Level II	Level III	Total
Assets				
Entities measured using the equity method – EMC	54,077	-	-	54,077
Financial assets held to maturity	24,156,858	158,309	-	24,315,167
Borrowings				
Debt securities	-	3,023,835	-	3,023,835
Borrowings	-	2,435,377	-	2,435,377
Liabilities				
Liabilities to banks	-	-	231,290	231,290
Liabilities on the issue of own debt securities	-	2,113,920	-	2,113,920

8.19.3. Shifts between different levels of the fair value hierarchy

In the event of a change in the method of measurement of assets or liabilities resulting, for instance, from losing (or gaining) access to quotations observed on the active market, such assets or liabilities are shifted between Levels I and II.

Both in the period of 3 months ended 31 March 2016 and in 2015, there were no significant shifts between Levels I and II (between Levels II and I, respectively).

Assets or liabilities are shifted between Levels II and III (or, as appropriate, between Levels III and II) when:

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

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

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

In the 3-month period ended 31 March 2016, there were no changes in the fair value measurement method for financial instruments measured at fair value which would be of material significance for the condensed interim consolidated financial statements.

8.20 The most extensive and best usage of a non-financial asset and its current usage

In the case of one investment property with a carrying amount of PLN 3,201 thousand (as at 31 December 2015: PLN 3,201 thousand, as at 31 March 2015: PLN 2,822 thousand), its current usage is not its most extensive or best usage, however the balance sheet measurement takes into account its most extensive and best usage.

This real estate entails developed land with a structure that must be razed, while the optimum usage would be to build new facilities.

(in thousands of PLN)

8.21 Receivables, including receivables due under insurance contracts

Receivables, including receivables due under insurance agreements – carrying amount	31 March 2016	31 December 2015	31 March 2015
Receivables on direct insurance, including:	1,816,902	1,768,263	1,732,519
- receivables from policyholders	1,629,548	1,564,151	1,572,687
- receivables from insurance intermediaries	163,428	178,813	131,643
- other receivables	23,926	25,299	28,189
Receivables on reinsurance	67,549	49,023	39,851
Other receivables	4,701,143	1,453,507	1,862,110
Receivables, including receivables due under insurance contracts (net)	**6,585,594**	**3,270,793**	**3,634,480**

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

8.21.1. Other receivables

Other receivables	31 March 2016	31 December 2015	31 March 2015
Receivables from the state budget, other than income tax receivables	57,453	45,441	52,538
Receivables on account of settlement of payment cards:	83,829	148,690	-
Receivables from Metro Projekt Sp. z o.o.	-	-	109,478
Receivables relating to prevention activities	58,989	62,111	55,512
Receivables for acting as an emergency adjuster	9,385	9,663	10,115
Receivables from transactions on securities and security deposits	4,070,970	782,735	1,408,774
Trade receivables	278,987	269,637	125,238
Receivables from direct claims handling on behalf of other insurance undertakings	46,470	40,414	49,252
Receivables from banks	35,919	26,287	-
Other	59,141	68,529	51,203
Other receivables, total	**4,701,143**	**1,453,507**	**1,862,110**

The line item “Receivables from disposal of securities and security deposits” presents receivables associated with executed but unsettled transactions on financial instruments.

(in thousands of PLN)

8.22 Impairment of financial assets and receivables

Change in impairment charges for financial assets in the period of 1 January – 31 March 2016	Impairment charges at the beginning of the period	Creation of impairment charges recognized in the profit and loss account	Release of impairment charges recognized in the profit and loss account	Derecognition of impairment charges from accounting ledgers (sale, writing down etc.)	Exchange differences	Impairment charges at the end of the period
Available for sale financial assets	**45,900**	**6,975**	**-**	**-**	**(86)**	**52,789**
Equity instruments	45,900	-	-	-	(86)	45,814
Debt instruments	-	6,975	-	-	-	6,975
Financial assets held to maturity	**1,236**	**-**	**-**	**-**	**1**	**1,237**
Debt instruments	1,236	-	-	-	1	1,237
Loans	**76,526**	**160,476**	**-**	**-**	**(102)**	**236,900**
Debt securities	42,837	-	-	-	-	42,837
Receivables from clients on account of loans	-	160,476	-	-	-	160,476
Term deposits with credit institutions	892	-	-	-	(102)	790
Borrowings	32,797	-	-	-	-	32,797
Receivables, including receivables due under insurance contracts	**588,356**	**23,017**	**(11,299)**	**(442)**	**(500)**	**599,132**
Receivables on direct insurance	562,224	19,937	(8,525)	(174)	(382)	573,080
Receivables on reinsurance	6,248	1,514	(2,071)	-	-	5,691
Other receivables	19,884	1,566	(703)	(268)	(118)	20,361
Reinsurers' share in technical provisions	**10 793**	**12 455**	**(923)**	**-**	**-**	**22 325**
Cash and cash equivalents	**1 308**	**-**	**-**	**-**	**(150)**	**1 158**
Total	**724 119**	**202 923**	**(12 222)**	**(442)**	**(837)**	**913 541**

(in thousands of PLN)

Movement in impairment charges for financial assets in the year ended 31 December 2015	Impairment charges at the beginning of the period	Creation of impairment charges recognized in the profit and loss account	Release of impairment charges recognized in the profit and loss account	Derecognition of impairment charges from accounting ledgers (sale, writing down etc.)	Foreign exchange differences	Other changes in impairment charges	Impairment charges at the end of the period
Available for sale financial assets	**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 securities	10,144	32,693	-	-	-	-	42,837
Term deposits with credit institutions	-	947	-	-	(55)	-	892
Borrowings	14,876	18,004	-	(64)	(19)	-	32,797
Receivables, including receivables due under insurance contracts	**593,647**	**109,679**	**(110,651)**	**(3,337)**	**(1,517)**	**535**	**588,356**
Receivables on direct insurance	565,901	105,007	(105,951)	(1,626)	(1,233)	126	562,224
Receivables on reinsurance	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 day of consolidation of the Alior Bank Group, Alior Bank's receivables from clients on account of loans were measured at fair value, as a result of which as at 31 December 2015 no impairment charges on these assets were recognized.

(in thousands of PLN)

Change in impairment charges for financial asset in the period of 1 January – 31 March 2015	Impairment charges at the beginning of the period	Creation of impairment charges recognized in the profit and loss account	Release of impairment charges recognized in the profit and loss account	Derecognition of impairment charges from accounting ledgers (sale, writing down etc.)	Foreign exchange differences	Other changes in impairment charges	Impairment charges at the end of the period
Available for sale financial assets	**158,163**	**-**	**-**	**-**	**(291)**	**-**	**157,872**
Equity instruments	158,163	-	-	-	(291)	-	157,872
Financial assets held to maturity	**1,235**	**-**	**-**	**-**	**(49)**	**-**	**1,186**
Debt instruments	1,235	-	-	-	(49)	-	1,186
Borrowings	**25,020**	**935**	**-**	**-**	**(65)**	**-**	**25,890**
Debt securities	10,144	-	-	-	-	-	10,144
Term deposits with credit institutions	-	935	-	-	(42)	-	893
Borrowings	14,876	-	-	-	(23)	-	14,853
Receivables, including receivables under insurance agreements	**593,647**	**42,676**	**(29,862)**	**(153)**	**(1,712)**	**(1,906)**	**602,690**
Receivables on direct insurance	565,901	41,618	(27,668)	(33)	(1,386)	5	578,437
Reinsurance receivables	5,021	454	(2,112)	-	-	-	3,363
Other receivables	22,725	604	(82)	(120)	(326)	(1,911)	20,890
Reinsurers' share in technical provisions	**17,531**	**1,487**	**(1,540)**	**-**	**-**	**-**	**17,478**
Cash and cash equivalents	**-**	**1,364**	**-**	**-**	**(62)**	**-**	**1,302**
Total	**795,596**	**46,462**	**(31,402)**	**(153)**	**(2,179)**	**(1,906)**	**806,418**

(in thousands of PLN)

8.23 Assets held for sale

Assets held for sale before reclassification	31 March 2016	31 December 2015	31 March 2015
Groups held for sale	**-**	**-**	**180,243**
Assets	-	-	409,767
Intangible assets	-	-	4,935
Property, plant and equipment	-	-	6,608
Financial assets	-	-	312,948
Receivables, including receivables due under insurance contracts	-	-	30,446
Reinsurers' share in technical provisions	-	-	20,167
Estimated subrogation	-	-	6,412
Deferred tax assets	-	-	1,632
Deferred acquisition costs	-	-	14,859
Prepayments and accruals	-	-	1,304
Other assets	-	-	-
Cash and cash equivalents	-	-	10,456
Liabilities related directly to assets classified as held for sale	-	-	229,524
Technical provisions	-	-	205,542
Provisions for employee benefits	-	-	1,877
Current income tax liabilities	-	-	106
Other liabilities	-	-	21,999
Other assets held for sale	**1,496,369**	**1,506,048**	**154,769**
Property, plant and equipment	43,109	44,221	53,129
Investment properties	1,453,260	1,461,827	101,640
Assets and groups of assets held for sale	**1,496,369**	**1,506,048**	**564,536**
Liabilities related directly to assets classified as held for sale	**-**	**-**	**229,524**

As at 31 March 2016 and as at 31 December 2015, presented in the line item “Investment properties” were predominantly real properties held for sale by real estate sector mutual funds due to the achievement of the expected investment horizon (in the amount of PLN 1,345,100 thousand). As at 31 March 2015, this line item contains predominantly assets held for sale by PZU and PZU Życie as part of the portfolio optimization project.

The line item “Groups held for sale” presents UAB DK PZU Lietuva’s assets and liabilities which was sold on 30 September 2015.

(in thousands of PLN)

8.24 Technical provisions

Technical provisions	31 March 2016	31 December 2015	31 March 2015
Technical provisions in non-life insurance	**19,478,451**	**19,278,600**	**18,543,071**
Unearned premiums provision	5,987,286	5,642,997	5,388,342
Provision for unexpired risk	166,526	119,183	30,328
Provisions for outstanding claims	7,567,033	7,706,360	7,156,410
Provision for capitalized value of annuities	5,755,554	5,807,892	5,966,013
Provisions for bonuses and discounts for the insureds	2,052	2,168	1,978
Technical provisions in life insurance	**21,926,577**	**22,001,721**	**22,073,334**
Unearned premiums provision	90,521	93,816	94,411
Provision for life insurance	16,172,659	16,221,886	16,300,538
Provisions for outstanding claims	577,208	557,680	531,318
Provisions for bonuses and discounts for the insureds	615	494	690
Other technical provisions	373,997	383,888	428,956
Unit-linked reserve	4,711,577	4,743,957	4,717,421
Technical provisions, total	**41,405,028**	**41,280,321**	**40,616,405**

8.25 Other provisions

Movement in other provisions in the period 1 January – 31 March 2016	Opening balance	Increase	Utilization	Dissolution	Exchange differences	Balance at the end of the period
Provisions for restructuring expenses	2,777	-	(688)	(200)	-	1,889
Provision for disputed claims and potential liabilities	4,056	179	-	(17)	-	4,218
Provision for penalties imposed by the Office for Competition and Consumer Protection (UOKiK) [1)]	57,880	-	-	-	-	57,880
Provision for exit costs of the Graphtalk project	5,614	86	-	-	-	5,700
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	9,092	-	-	-	-	9,092
Other	28,690	8,520	(1,769)	(3,147)	29	32,323
Other provisions, total	**108,109**	**8,785**	**(2,457)**	**(3,364)**	**29**	**111,102**

Movement in other provisions in the year ended 31 December 2015	Opening balance	Increase	Utilization	Dissolution	Business combinations	Exchange differences	Balance at the end of the period
Provisions 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 penalties imposed by the Office of Competition and Consumer Protection [1)]	119,551	3	(50,384)	(11,290)	-	-	57,880
Provision for the costs of closing 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
Other provisions, total	**191,206**	**21,447**	**(90,423)**	**(24,333)**	**10,325**	**(113)**	**108,109**

(in thousands of PLN)

Movement in other provisions in the period 1 January – 31 March 2015	Opening balance	Increase	Utilization	Dissolution	Business combinations	Exchange differences	Balance at the end of the period
Provisions for restructuring expenses	9,354	-	(3,645)	-	-	-	5,709
Provision for co-insurance settlements	-	23,471	-	-	-	-	23,471
Provision for disputed claims and potential liabilities under executed insurance contracts	781	27	-	-	-	-	808
Provision for penalties imposed by the Office of Competition and Consumer Protection [1)]	119,551	2	-	-	-	-	119,553
Provision for exit costs of the Graphtalk project	22,668	79	-	-	-	-	22,747
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,234	-	-	-	-	-	7,234
Other	31,618	4,009	(2,517)	(306)	1,594	(453)	33,945
Other provisions, total	**191,206**	**27,588**	**(6,162)**	**(306)**	**1,594**	**(453)**	**213,467**

[1)] The line item "Provision for penalties imposed by the Office for Competition and Consumer Protection" is explained in items 22.2 and 22.3.

8.26 Financial liabilities

Financial liabilities	31 March 2016	31 December 2015	31 March 2015
Financial liabilities carried at fair value	**1,949,223**	**1,989,847**	**2,237,103**
Derivatives held for trading	895,955	940,484	597,721
Derivatives used for cash flow hedging	507	-	-
Investment contracts for client's account and risk (unit-linked)	375,521	392,914	540,945
Liabilities to members of consolidated mutual funds	677,240	656,449	1,098,437
Financial liabilities measured at amortized cost	**41,765,141**	**42,497,976**	**10,286,310**
Liabilities to banks	389,888	600,298	231,290
Current deposits	11,011	11,012	-
One-day deposits	-	30,701	-
Term deposits	-	197,826	-
Issuance of bank securities (Alior Bank)	32,916	32,666	-
Loans received	140,651	124,780	231,290
Other liabilities	205,310	203,313	-
Amounts payable to clients	35,764,770	33,655,744	-
Current deposits	12,688,930	12,475,022	-
Term deposits	20,349,598	18,529,163	-
Issuance of bank securities (Alior Bank)	2,348,731	2,259,230	-
Other liabilities	377,511	392,329	-
Liabilities on the issue of own debt securities (PZU)	3,556,521	3,536,546	2,048,883
Subordinated debt (Alior Bank)	800,761	758,560	-
Liabilities on account of repurchase transactions	1,116,883	3,794,306	7,581,364
Liabilities for borrowings	-	-	12,103
Investment contracts with guaranteed and fixed terms and conditions	136,318	152,522	412,670
Total financial liabilities	**43,714,364**	**44,487,823**	**12,523,413**

8.26.1. Subordinated debt

The total balance of subordinated debt is by virtue of liabilities contracted by Alior Bank.

	Par value	Interest rate	Date of issue / receipt of the loan	Date of maturity / repayment of the loan
Liabilities included in equity				
Subordinated loan (in EUR 000s)	10,000	EURIBOR 3M+margin	12 October 2011	12 October 2019
F series bonds (in PLN 000s)	321,700	WIBOR 6M+margin	26 September 2014	26 September 2024
G series bonds (in PLN 000s)	192,950	WIBOR 6M+margin	31 March 2015	31 March 2021
I and I1 series bonds (in PLN 000s)	183,350	WIBOR 6M+margin	4 December 2015	6 December 2021
Meritum Bank bonds (in PLN 000s)	67,200	WIBOR 6M+margin	29 April 2013	29 April 2021
Meritum Bank bonds (in PLN 000s)	80,000	WIBOR 6M+margin	21 October 2014	21 October 2022
EUR001 series bonds (in EUR 000s)	10,000	LIBOR 6M+margin	4 February 2016	4 February 2022

Subordinated debt, carrying amount	31 March 2016	31 December 2015
Liabilities included in equity	**757,677**	**758,560**
Subordinated loan	42,866	42,818
F series bonds	221,891	224,633
G series bonds	192,977	195,555
I series bonds	115,607	114,145
I1 series bonds	33,910	33,482
Meritum Bank bonds	150,426	147,927
Liabilities included in equity	**43,084**	**-**
EUR001 series bonds [1)]	43,084	-
Subordinated debt	**800,761**	**758,560**

[1)] Through its decision of 19 April 2016 the Polish Financial Supervision Authority consented to count the liability toward the calculation of Tier II capital.

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

8.26.2. Liabilities on the issue of own debt securities

	Par value (EUR 000s)	Interest rate	Date of issue / receipt of the loan	Date of maturity / repayment of the loan
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 are secured by a guarantee granted by PZU which covers all issue-related liabilities of the issuer (including the obligation to pay the par value of the bonds and interest on the bonds) in favor of all bondholders. The maximum value of the guarantee has not been specified. The guarantee will expire upon expiration of the bondholders' claims against PZU Finance AB (publ.).

(in thousands of PLN)

8.27 Other liabilities

Other liabilities	31 March 2016	31 December 2015	31 March 2015
Costs to be remitted	**889,514**	**1,008,246**	**653,786**
Accrued costs of agency commissions	290,681	272,153	252,972
Accrued payroll costs	101,364	114,245	105,568
Accrued reinsurance costs	295,816	412,227	159,425
Accrued employee bonuses	75,568	86,283	78,245
Other	126,085	123,338	57,576
Revenues charged in advance	**125,901**	**116,682**	**44,502**
Other liabilities	**5,521,712**	**2,553,083**	**2,865,642**
Liabilities on direct insurance	770,557	696,166	714,476
Reinsurance liabilities	165,314	96,718	121,498
Liabilities to the state budget, other than income tax liabilities	72,487	34,576	39,609
Regulatory settlements:	68,268	51,538	41,262
Liabilities to employees	6,850	9,110	12,757
Insurance Guarantee Fund	14,667	11,247	10,300
Liabilities to the State Fire Service and Voluntary Fire Service	20,660	-	21,944
Liabilities due under transactions on financial instruments	3,507,956	572,240	1,712,743
Liabilities for the purchase of the third tranche of shares in Alior Bank	-	341,709	-
Trade liabilities	114,948	122,078	90,433
Estimated non-insurance liabilities	109,038	175,786	56,273
Liabilities to banks for payment documents cleared in interbank clearing systems	342,725	183,574	-
Estimated refunds of compensation in connection with Alior Bank's clients lapsing or withdrawing from insurance purchased during the sale of credit products	97,343	94,045	-
Alior Bank's liabilities for insurance of bank products offered to the bank's clients	57,620	66,941	-
Liabilities for direct claims handling	9,017	11,113	-
Other	164,262	86,242	44,347
Other liabilities, total	**6,537,127**	**3,678,011**	**3,563,930**

9. Contingent assets and liabilities

Contingent assets and liabilities	31 March 2016	31 December 2015	31 March 2015
Contingent assets, including:	38,500	33,126	20,570
- guarantees and sureties received	38,500	33,126	20,570
Contingent liabilities	10,224,022	10,081,994	336,329
- for renewable limits in settlement accounts and credit cards	7,699,745	7,371,753	-
- guarantees and sureties given	1,484,931	1,576,178	6,058
- disputed insurance claims	333,479	389,854	243,289
- other disputed claims	196,584	211,282	55,457
- other, including:	509,283	532,927	31,525
- liabilities for tranches of borrowings not used by borrowers up to the balance sheet date	453,833	472,988	-
- potential liabilities under loan agreements concluded by the Armatura Group	26,992	31,478	28,527

10. Commentary to the condensed interim consolidated financial statements

In the period of 3 months ended 31 March 2016, gross written premium was PLN 4,800,604 thousand compared to PLN 4,680,827 thousand in the same period of the previous year (+2.6%). The increase in sales applied above all to the following:

- motor insurance in the mass client segment (+PLN 213,253 thousand), mainly due to the higher average premium resulting from gradual price hikes;
- motor insurance in the corporate client segment (+PLN 59,180 thousand) due to the higher average premium and the number of insurance products;
- regular premium in the group and individually continued insurance segment (+PLN 27,659 thousand), mainly as a result of expanding protection group insurance (higher average premium and number of insureds) and obtaining premiums in group health insurance (new clients in ambulatory insurance and sales of medicine plans);

At the same time, falling gross written premium was recorded in:

- individual unit-linked products in the bancassurance channel;
- fire and other property insurance in the corporate client segment (-PLN 46,340 thousand) – acquisition of a long-term contract with the mining sector in the same period of 2015.

Investment income (including investment contracts i.e. contracts that involve no material insurance risk) in Q1 2016 and Q1 2015 were PLN 1,031,328 thousand and PLN 1,024,342 thousand, respectively, increasing due to investment income generated on banking activity - the commencement of consolidating Alior Bank. Net of banking activity, the level of investment income was lower than in the corresponding period of the previous year, mainly as a consequence of the worse valuation of equity instruments and as a consequence of the recognition of FX gains on its own debt securities denominated in Euro in the comparable period of 2015.

Net claims and benefits (including the movement in technical provisions) were PLN 3,066,628 thousand, oscillating at a level close to Q1 of the previous year. The following factors contributed to the movement in the category of net claims and benefits:

- the growth in claims and benefits in the group of insurance for other physical losses in the mass client segment, chiefly including insurance for subsidized crop insurance as an effect of the occurrence of numerous losses caused by the forces of nature (adverse effects of ground frost);
- higher claims and benefits in motor TPL insurance in the mass client segment, mainly as a result of the rising average payout and the faster pace of reported claims.

In turn, the decline in technical provisions related to the negative investment result and lower unit-linked product sales in the bancassurance channel contributed to the decrease in the foregoing category of net claims and benefits.

In Q1 2016 acquisition expenses rose by PLN 64,204 thousand (+11.6%) compared to the corresponding period of the previous year. This growth was driven n particular by higher sales in distribution channels charging commissions in the mass client segment and the lower level of deferred expenses.

The increase in administrative expenses of PLN 211,484 thousand (+51,8%) resulted primarily from commencing the consolidation of Alior Bank; the PZU Group's expenses rose by PLN 242,509 thousand as a result.

At the same time, a positive effect was recorded in comparison to last year in the insurance activity segments in Poland in connection with maintaining high cost discipline - a drop in administrative expenses by PLN 26,933 thousand.

The net balance of other operating revenues and expenses in the 3-month period ended 31 March 2016 fell by PLN 32,295 thousand compared to the corresponding period of the previous year. The main reason for this change was as follows:

- consolidating Alior Bank in the PZU Group's results;
- introducing the tax on financial institutions - the PZU Group's tax burden (in total on insurance and banking activity) in Q1 2016 was PLN 67,317 thousand;

The foregoing factors were partially offset by the costs of amortization of intangible assets identified as a result of the transactions to acquire insurance and medical companies being down by PLN 36,908 thousand.

Interest expenses in Q1 2016 were PLN 274,321 thousand, making them higher by PLN 238,894 thousand compared to the corresponding period of last year. This growth pertained to interest on deposits and derivatives to hedge banking activity.

Operating profit in Q1 2016 was PLN 688,221 thousand, down by PLN 465,801 thousand (-40.4%) compared to the result in the corresponding period of last year. This change was mainly caused by the following:

- deterioration in profitability in the mass insurance segment compared to Q1 2015 (-190,863 thousand) – higher loss ratio in agricultural insurance as a consequence of the occurrence of numerous claims caused by the forces of nature (adverse effects of wintering) - non-recurring effect in agricultural insurance claims higher than the average for the last 3 years by PLN 213,826 thousand;
- lower income on investment activity (net of banking activity) linked to the decline in the valuation of equity instruments and as a consequence of the recognition of high FX gains on its own debt securities denominated in Euro in the previous year.
- higher profitability in the group and individually continued insurance segment (+PLN 47,750 thousand) associated mainly with the lower loss ratio of protection products due to a lower incidence of deaths;
- lower profitability in the corporate insurance segment (-PLN 33,468 thousand) mainly in the general third party liability insurance group (effect of the decline in the corresponding period of the previous year of provisions for claims from previous years);
- commencement of consolidation of Alior Bank in December 2015. In Q1 2016 the operating profit in banking activity was PLN 106,261 thousand.

Net profit decreased in comparison to Q1 2015 by PLN 404,884 thousand (-43.0%) to PLN 536,456 thousand. The net profit attributable to parent company shareholders was PLN 486,598 thousand, compared to PLN 941,332 thousand in 2015 (down 48.3%).

IFRS-compliant consolidated equity as at 31 March 2016 was PLN 15,704,806 thousand compared to PLN 14,084,460 thousand as at 31 March 2015. The growth in consolidated equity pertained to non-controlling interests, that in connection with the consolidation of Alior Bank among others was PLN 2,310,277 thousand. The return on equity (ROE[2]) attributable to the parent company for the period from 1 January 2016 to 31 March 2016 was 14.8%, down 12.8 p.p. compared to the corresponding period of the previous year. In comparison with consolidated equity as at 31 December 2015, equity rose PLN 525,899 thousand (+3.5%). This movement ensued in particular from the profit generated in Q1 2016 in the amount of PLN 536,456 thousand.

Total equity and liabilities as at 31 March 2016 increased compared to 31 December 2015 by PLN 2,866,068 thousand to PLN 108,295,077 thousand, mainly as a result of unsettled transactions on financial instruments, higher term deposits on banking activity partially offset by the level of executed sell-buy-back transactions.

The investment portfolio[3] as at 31 March 2016 and 31 December 2015 was PLN 56,426,728 thousand and PLN 55,411,163 thousand, respectively. The increase by PLN 1,015,565 thousand was associated mainly with the decline in the level of executed sell-buy-back transactions. Loan receivables as at 31 March 2016 were PLN 32,170,137 thousand compared to PLN 30,331,615 thousand as at 31 December 2015.

The value of technical provisions at the end of Q1 2016 was PLN 41,405,028 thousand and accounted for 38.2% of total equity and liabilities. Compared to 31 December 2015, provisions rose by PLN 124,707 thousand. This change resulted primarily from the following:

- the increase in the premium reserve in non-life insurance stemming chiefly from the development of sales of motor insurance and agricultural insurance;
- the decline in claim provisions in motor insurance;

[2] Annualized ratio.

[3] The investment portfolio contains financial assets net of loan receivables, investment properties and the negative valuation of derivatives and liabilities arising from sell-buy-back transactions.

(in thousands of PLN)

- the lower provisions in life insurance in bank structured products in connection with more product tranches maturing and the absence of sales;
- the lower technical provisions in individual unit-linked products in the bancassurance channel – this drop ensues from the negative result on investing activity and benefits exceeding the level of sales;
- the above was partially offset by the growth in mathematical provisions in continued insurance in connection with the higher sum insured and the aging of the portfolio.

11. Equity management

11.1 External capital requirements

11.1.1. Insurance activity

The new insurance activity act implementing 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") was published on 10 November 2015. This act took force on 1 January 2016. According to the new act, the calculation of the capital requirement is based on market, actuarial (insurance), counterparty insolvency, catastrophic and operational risks. Assets, liabilities and as a consequence own funds covering the capital requirement are measured at fair value.

The estimated calculation of the capital requirement and own funds according to the Solvency II rules based on data as at 31 December 2015 is presented below. The data presented here are preliminary and prior to the final date for transmitting them to the Polish FSA on 1 July 2016 they are subject to change. In particular, presented in this report own funds as at 31 December 2015 have not been adjusted for the estimated dividend. No adjustments due to the fact that the PZU Management Board has not adopted a resolution on the proposal for profit distribution for 2015 years, until the date of publication of this report. On account of the pending process to calculate the capital requirement and own funds on the basis of data on 31 March 2016 they have not been presented in these condensed interim consolidated financial statements.

Own funds and capital adequacy ratio (including other financial sectors)	**31 December 2015**
Amount of available own funds to cover the group capital requirement for capital adequacy	**21,508,693**
Group capital requirement for capital adequacy	**6,942,078**
Coverage ratio of group capital requirement for capital adequacy with permissible own funds	309.83%

11.1.2. Banking activity

The purpose of managing capital in banking activity is to maintain the appropriate amount of own funds and Tier 1 capital to cover risk according to the intended risk appetite. Within the risk appetite, the expected coverage levels using own funds and Tier 1 capital for a potential unexpected loss for the various types of risk specified in the CRR Regulation, as well as the various types of risk identified during the process for assessing the adequacy of internal capital are determined. The potential unexpected loss is determined using regulatory capital whose method of calculation has been specified in the CRR Regulation as well as using internal capital.

(in thousands of PLN)

The capital adequacy ratio and the Tier 1 ratio as at 31 March 2016 have been computed according to the CRR Regulation.

Own funds and capital adequacy ratio	31 March 2016	31 December 2015
Total own funds for the capital adequacy ratio	**4,017,326**	**3,853,305**
Tier 1 share capital (CET1)	3,141,995	2,975,899
Tier 2 ancillary own funds	875,331	877,406
Capital requirements	**2,378,091**	**2,457,567**
Tier 1 capital ratio	**10.57%**	**9.69%**
Capital adequacy ratio	**13.51%**	**12.54%**

The Alior Bank Group fully satisfied the provisions of the CRR Regulation at 31 March 2016 and 31 December 2015 in respect of capital management, including the own funds account and the calculation of capital requirements for the various types of risk.

12. Segment reporting

12.1 Reportable segments

12.1.1. Key classification criterion

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

The PZU Group's main segmentation is based on the criterion of entities subject to consolidation, with the reservation that in reference to the insurance companies of the PZU Group seated in Poland (PZU, PZU Życie, Link4 and TUW PZUW), segments are additionally distinguished according to the following criteria: customer groups, product lines and nature of the business.

The following segments have been distinguished in PZU, Link4 and TUW PZUW:

- corporate insurance (non-life);
- mass insurance (non-life);
- investments – entailing investing activity of its own funds.

PZU Życie has distinguished the following segments:

- group and individually continued insurance (life);
- individual insurance (life);
- investments – entailing investing activity of its own funds;
- investment contracts – described in greater detail below in this chapter.

Having regard for its separateness and its operation in different regulatory environments, the internal financial reporting system applied by the PZU Group, according to the PZU Group's segmentation based on the criterion of entities subject to consolidation and having regard for their utility for users of financial statements the following segments have also been distinguished:

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

If the qualitative or quantitative prerequisites described by IFRS 8 items 12-19 are met, operating segments may be combined into reportable segments. The consolidated financial statements do not combine distinct operating segments into reportable segments save for the segment called investments encompassing investing activity of the own funds of the PZU Group companies and the Baltic States segment; the countries from the segment were combined due to similarity of the products and services offered and similar regulatory environment.

12.1.2. Information relating to geographical areas

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

- Poland;
- Baltic states;
- Ukraine.

12.2 Inter-segment settlements

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

12.3 Segment's measure of profit

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

- in insurance companies seated in Poland – insurance result, which is the financial result before tax and other operating revenues and costs (including costs of financing), however including investment income (corresponding to the value of technical provisions) determined using the risk free rate. The insurance result is a measure approximately equivalent to the technical result on insurance defined in PAS with the exception that both life and non-life insurance have a net result on investments as described in the previous sentence;
- in the case of insurance companies seated abroad - just like above, taking into account the company's whole investment result, i.e. without adjustment of the investment income described above, calculated in accordance with IFRS;
- in non-insurance companies – the operating result according to local accounting standards in the country of the company's registered offices or according to IFRS, which is the financial result before tax.

12.4 Description of the segments

Below a description of all the PZU Group's distinguished reportable segments has been presented along with a presentation of the accounting standards according to which their financial data have been presented:

- corporate insurance (non-life) – reporting according to PAS – covering a broad scope of property insurance, TPL and motor insurance customized to a customer's needs entailing individual underwriting offered to large economic agents;
- mass insurance (non-life) - reporting according to PAS – covering a broad scope of property, accident, TPL and motor insurance offered to individual clients and entities in the small and medium enterprise sector;
- group and individually continued insurance (life) - reporting according to PAS – covering group insurance addressed by PZU Życie to groups of employees and other formal groups (for instance trade unions), under which persons under a legal relationship with the policyholder (for instance employer, trade union) enroll in the insurance and individually continued insurance in which the policyholder acquired the right to individual continuation during the

group phase. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance;

- individual insurance (life) - reporting according to PAS – covering insurance offered by PZU Życie to individual clients under which the insurance contract applies to a specific insured and this insured is subject to individual underwriting. PZU Życie's offer covers a wide range of protection, investment (not investment contracts) and health insurance;
- investments - reporting according to PAS - comprising investments of the PZU Group's own funds, understood as the surplus of investments over technical provisions in the PZU Group insurance companies seated in Poland (PZU, Link4 and PZU Życie) plus the surplus of income earned over the risk-free rate on investments reflecting the value of technical provisions in insurance products, i.e. surplus of investment income allocated at transfer prices to insurance segments. Additionally, the Investments segment includes income from other free funds in the PZU Group (including consolidated mutual funds);
- banking activity – involving Alior Bank and its subsidiaries reporting according to IFRS;
- pension insurance – reporting according to PAS – covering PTE PZU;
- Ukraine (non-life and life insurance) – reporting according to IFRS – covering PZU Ukraine and PZU Ukraine Life;
- Baltic States (life and non-life insurance) – reporting according to IFRS – including Lietuvos Draudimas AB and its branch in Estonia, AAS Balta and UAB PZU Lietuva Gyvybes Draudimas;
- investment contracts – reporting according to PAS – covering PZU Życie products that do not transfer significant insurance risk within the meaning of IFRS 4 and that do not meet the definition of an insurance agreement (i.e. some products with a guaranteed rate of return and some unit-linked products);
- other – reporting jointly according to IFRS or PAS (IFRS 8 does not require the presentation of the results of segments qualified to the category „other" according to cohesive accounting rules) – covers other entities not qualified as belonging to any other segment above, whose revenues predominantly originate from the manufacturing activity of bathroom and sink fixtures, heaters, foundry molds and service activity.

12.5 Accounting standards employed according to PAS

12.5.1. PZU

PAS and the differences between PAS and IFRS in respect of PZU's standalone financial reporting have been portrayed in detail in the PZU standalone financial statements for 2015.

PZU's standalone financial statements for 2015 are available on the PZU website at www.pzu.pl in the "Investor Relations" tab.

12.5.2. PZU Życie

The accounting standards according to PAS applicable to PZU Życie are convergent with the PAS applicable to PZU (bypassing accounting for insurance agreements and investment contracts).

The rules of accounting for insurance agreements and investment contracts at PZU Życie according to IFRS have been presented in the consolidated financial statements for 2015.

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

12.6 Construction of the segmental note and the reconciliations it contains

As the segments' measures of profit are based on local accounting standards in the country of the registered offices of the PZU Group company or IFRS, the financial data of the segments are carried using several different accounting standards (PAS, IFRS).

The tables present the reconciliation required by IFRS 8 item 28 for total revenues (understood as net earned premium) and total profits or losses of reporting segments with consolidated operating profit.

12.7 Simplifications in the segmental note

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

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

12.8 Information on key customers

Due to the nature of the activities of PZU Group companies, there are no business partners bringing revenues which would constitute 10% or more of the PZU Group's total revenues (understood as gross written premium).

(in thousands of PLN)

Profit and loss account for the period from 1 January 2016 to 31 March 2016	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Banking activity	Pension insurance	Ukraine	Baltic Countries	Investment contracts	Other operations	The sum of operating segments
	PAS	PAS	PAS	PAS	PAS	IFRS	PAS	IFRS	IFRS	PAS	PAS	
Gross premium written externally	414 114	2 119 459	1 688 875	246 531	-	-	-	57 958	273 667	47 356	-	4 847 960
Gross premium written between segments	60 507	27 434	-	-	-	-	-	-	-	-	-	87 941
Gross written insurance premium	**474 621**	**2 146 893**	**1 688 875**	**246 531**	**-**	**-**	**-**	**57 958**	**273 667**	**47 356**	**-**	**4 935 901**
Reinsurers' share in gross written premium	(25 840)	(3 721)	150	-	-	-	-	(32 134)	(12 201)	-	-	(73 746)
Net written premium	**448 781**	**2 143 172**	**1 689 025**	**246 531**	**-**	**-**	**-**	**25 824**	**261 466**	**47 356**	**-**	**4 862 155**
Movement in the unearned premium reserve and gross unexpired risk reserve	(44 074)	(400 290)	(21)	2 707	-	-	-	(16 229)	(4 735)	12	-	(462 630)
Reinsurer's share in the unearned premium reserve and gross unexpired risk reserve	(39 925)	(10 676)	-	-	-	-	-	14 194	4 988	-	-	(31 419)
Net earned premium	**364 782**	**1 732 206**	**1 689 004**	**249 238**	**-**	**-**	**-**	**23 789**	**261 719**	**47 368**	**-**	**4 368 106**
Fee and commission income	-	-	-	-	-	137 970	-	-	-	-	-	137 970
Investment income, including:	28 017	126 829	190 135	12 461	125 419	564 718	1 289	7 585	4 003	6 051	(521)	1 065 986
Net result on investments (external activity)	28 017	126 829	190 135	12 461	119 447	564 718	1 289	7 585	4 003	6 051	(521)	1 060 014
Net result on investments (inter-segment activity)	-	-	-	-	5 972	-	-	-	-	-	-	5 972
Other net technical income	9 750	19 931	230	60	-	-	-	-	-	3	-	29 974
Revenues on core business of non-insurance entities	-	-	-	-	-	-	23 934	-	-	-	144 234	168 168
Other operating income (not applicable to insurance entities)	-	-	-	-	-	21 661	2 000	-	-	-	3 731	27 392
Gross claims paid	(294 573)	(1 324 576)	(1 198 192)	(354 452)	-	-	-	(19 391)	(168 277)	(82 780)	-	(3 442 241)
Movement in the gross claims reserve	84 673	101 965	(14 963)	(5 084)	-	-	-	(6 513)	(5 667)	(566)	-	153 845
Reinsurers' share in claims paid	23 200	10 978	24	-	-	-	-	5 629	4 797	-	-	44 628
Reinsurer's share in the movement in reserves	16 087	(11 937)	-	-	-	-	-	2 639	2 443	-	-	9 232
Net insurance claims	**(170 613)**	**(1 223 570)**	**(1 213 131)**	**(359 536)**	**-**	**-**	**-**	**(17 636)**	**(166 704)**	**(83 346)**	**-**	**(3 234 536)**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	(101 712)	195 082	-	-	-	-	-	34 145	-	127 515
Net premiums and rebates for insureds including the movement in reserves	52	(6)	(76)	(79)	-	-	-	-	-	8	-	(101)
Other net technical expenses	(22 384)	(85 780)	(16 779)	(1 950)	-	-	-	-	-	(152)	-	(127 045)
Fee and commission expenses	-	-	-	-	-	(50 709)	-	-	-	-	-	(50 709)
Interest expenses						(250 748)		-	(505)		(1 040)	(252 293)
Acquisition cost	(76 092)	(359 061)	(88 432)	(25 291)	-	-	(1 030)	(11 988)	(60 551)	(1 661)	-	(624 106)
Administrative costs	(25 741)	(145 955)	(144 142)	(14 885)	-	(242 509)	(8 574)	(4 353)	(30 282)	(2 716)	-	(619 157)
Reinsurance commissions and profit-sharing	4 669	3 019	(45)	-	-	-	-	4 716	327	-	-	12 686
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	-	(146 069)	(146 069)
Other operating expenses (not applicable to insurance entities)	-	-	-	-	-	(74 122)	(46)	-	-	-	(5 509)	(79 677)
Result on insurance / Operating profit (loss)	**112 440**	**67 613**	**315 052**	**55 100**	**125 419**	**106 261**	**17 573**	**2 113**	**8 007**	**(300)**	**(5 174)**	**804 104**

(in thousands of PLN)

Profit and loss account for the period from 1 January 2015 to 31 March 2015	Corporate insurance (non-life)	Mass insurance (non-life)	Group and individually continued insurance (life)	Individual insurance (life)	Investments	Pension insurance	Ukraine	Baltic Countries	Investment contracts	Other operations	The sum of operating segments
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	
Gross premium written externally	410 481	1 945 465	1 661 216	338 662	-	-	35 239	289 764	43 488	-	4 724 315
Gross premium written between segments	1 872	3 936	-	-	-	-	-	-	-	-	5 808
Gross written insurance premium	**412 353**	**1 949 401**	**1 661 216**	**338 662**	**-**	**-**	**35 239**	**289 764**	**43 488**	**-**	**4 730 123**
Reinsurers' share in gross written premium	(56 754)	(1 323)	750	4	-	-	(9 948)	(19 828)	-	-	(87 099)
Net written premium	**355 599**	**1 948 078**	**1 661 966**	**338 666**	**-**	**-**	**25 291**	**269 936**	**43 488**	**-**	**4 643 024**
Movement in the unearned premium reserve and gross unexpired risk reserve	(6 979)	(282 751)	(641)	1 442	-	-	(2 925)	(3 307)	(11)	-	(295 172)
Reinsurer's share in the unearned premium reserve and gross unexpired risk reserve	4 864	(11 188)	-	-	-	-	769	4 153	-	-	(1 402)
Net earned premium	**353 484**	**1 654 139**	**1 661 325**	**340 108**	**-**	**-**	**23 135**	**270 782**	**43 477**	**-**	**4 346 450**
Investment income, including:	21 762	102 697	196 357	165 847	359 846	2 674	24 763	14 720	24 849	602	914 117
Net result on investments (external activity)	21 762	102 697	196 357	165 847	338 191	2 674	24 763	14 720	24 849	602	892 462
Net result on investments (inter-segment activity)	-	-	-	-	21 655	-	-	-	-	-	21 655
Other net technical income	8 441	42 586	353	-	-	-	-	-	(1)	-	51 379
Revenues on core business of non-insurance entities	-	-	-	-	-	26 356	-	-	-	118 542	144 898
Other operating income (not applicable to insurance entities)	-	-	-	-	-	33	-	-	-	9 440	9 473
Gross claims paid	(219 087)	(1 033 816)	(1 225 976)	(196 289)	-	-	(37 074)	(187 556)	(217 676)	-	(3 117 474)
Movement in the gross claims reserve	42 574	62 314	(15 565)	(358)	-	-	151	9 373	(1 927)	-	96 562
Reinsurers' share in claims paid	6 523	7 837	35	-	-	-	1 571	8 542	-	-	24 508
Reinsurer's share in the movement in reserves	32 582	6 213	-	-	-	-	(637)	(2 037)	-	-	36 121
Net insurance claims	**(137 408)**	**(957 452)**	**(1 241 506)**	**(196 647)**	**-**	**-**	**(35 989)**	**(171 678)**	**(219 603)**	**-**	**(2 960 283)**
Movement in other net technical reserves, life insurance reserves where the policyholder bears the investment risk, loss ratio (risk) equalization reserves	-	-	(101 001)	(218 827)	-	-	-	-	156 432	-	(163 396)
Net premiums and rebates for insureds including the movement in reserves	(630)	(836)	(40)	-	-	-	-	-	(3)	-	(1 509)
Other net technical expenses	(9 349)	(98 247)	(8 538)	(179)	-	-	-	-	(65)	-	(116 378)
Interest costs							(32)	(311)		(879)	(1 222)
Acquisition costs	(62 234)	(322 432)	(92 686)	(31 015)	-	(740)	(9 979)	(74 394)	(2 628)	-	(596 108)
Administrative costs	(32 593)	(162 229)	(146 826)	(16 008)	-	(11 318)	(4 083)	(36 398)	(2 515)	-	(411 970)
Reinsurance commissions and profit-sharing	4 435	250	(136)	-	-	-	959	431	-	-	5 939
Expenses of the core business of non-insurance entities	-	-	-	-	-	-	-	-	-	(122 916)	(122 916)
Other operating expenses (not applicable to insurance entities)	-	-	-	-	-	(11)	-	-	-	(5 403)	(5 414)
Result on insurance / Operating profit (loss)	**145 908**	**258 476**	**267 302**	**43 279**	**359 846**	**16 994**	**(1 226)**	**3 152**	**(57)**	**(614)**	**1 093 060**

(in thousands of PLN)

Reconciliation of the total for the segments and consolidated data	1 January – 31 March 2016		1 January – 31 March 2015	
	Net earned premium	Segment result	Net earned premium	Segment result
Total for the segments	4,368,106	804,104	4,346,450	1,093,060
Presentation of investment contracts	(47,368)	-	(43,477)	-
Valuation of equity instruments	-	(6,817)	-	220,338
Real estate valuation	-	(4,285)	-	(12,693)
Loss ratio equalization provision and prevention fund	-	(1,636)	-	(25,837)
Charges for the Company Employee Benefits Fund (ZFŚS) and actuarial costs	-	-	-	-
Consolidation adjustments	(3,812)	(103,145)	4,067	(120,846)
Consolidated data	**4,316,926**	**688,221**	**4,307,040**	**1,154,022**

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

Geographic breakdown 1 January - 31 March 2016 and as at 31 March 2016	Poland	Baltic States	Ukraine	Not allocated (consolidation and other exclusions)	Consolidated value
Gross externally written insurance premium	4,468,979	273,667	57,958	-	4,800,604
Gross insurance premium written between segments	27,941	-	-	(27,941)	-
Revenue from commissions and fees	184,924	-	-	-	184,924
Net investment income	956,378	3,829	7,525	-	967,732
Net result on the realization of investments and impairment charges	(90,301)	(492)	51	-	(90,742)
Net movement in the fair value of assets and liabilities measured at fair value	153,662	666	8	-	154,338
Non-current assets, other than financial instruments[1]	2,353,922	293,141	2,989	(343)	2,649,709
Deferred tax assets	388,428	4	1,839	2,285	392,557
Assets	107,574,042	1,848,273	239,669	(1,366,906)	108,295,077

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

Geographic breakdown 31 December 2015	Poland	Baltic States	Ukraine	Not allocated (consolidation and other exclusions)	Consolidated value
Non-current assets, other than financial instruments[1]	2,387,834	302,298	3,229	(405)	2,692,956
Deferred tax assets	345,674	-	1,145	2,370	349,189
Assets	104,738,120	1,825,890	217,201	(1,352,202)	105,429,009

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

(in thousands of PLN)

Geographic breakdown 1 January – 31 March 2015 and as at 31 March 2015	Poland	Baltic States	Ukraine	Not allocated (consolidation and other exclusions)	Consolidated value
Gross externally written insurance premium	4,355,824	289,764	35,239	-	4,680,827
Gross insurance premium written between segments	5,107	-	-	(5,107)	-
Revenue from commissions and fees	48,444	-	-	-	48,444
Net investment income	415,345	3,821	27,384	-	446,550
Net result on the realization of investments and impairment charges	118,404	2,435	(3,055)	-	117,784
Net change in the fair value of assets and liabilities measured at fair value	451,110	8,464	434	-	460,008
Non-current assets, other than financial instruments[1)]	1,404,311	373,125	2,938	(469)	1,779,905
Deferred tax assets	19,039	-	1,593	-	20,632
Assets	70,723,500	2,059,358	172,609	(1,213,485)	71,741,982

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

13. Commentary to segment reporting and investing activity

13.1 Corporate insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2016	1 January – 31 March 2015	% change
Motor TPL insurance	103,067	81,796	26.0%
MOD insurance	156,810	118,901	31.9%
Total motor insurance	259,877	200,697	29.5%
Insurance against fire and other damage to property	55,474	101,814	(45.5)%
Other liability insurance (groups 11, 12, 13)	66,974	73,578	(9.0)%
ADD and other insurance [1)]	92,296	36,264	154,5%
Total non-life insurance without motor insurance	214,744	211,656	1,5%
Total corporate insurance segment (non-life insurance)	**474,621**	**412,353**	**15,1%**

[1)] This line item includes loan guarantees and other financial insurance, assistance, travel, marine, rail and air insurance.

In Q1 2016, in the corporate insurance segment, gross written premium increased by PLN 62 268 thousand (+15.1% y/y) as compared to Q1 2015. The following factors were recorded concerning premiums:

- positive growth rate in the sales of motor insurance (+29.5% y/y) offered to leasing companies and in fleet insurance (chiefly motor own damage insurance) as a consequence of the higher average premium and the number of insurance products;
- gross written premium growth in ADD and other insurance (+154.5% y/y) - outcome of extending a guarantee to PZU subsidiary Alior Bank with a high unit value for a period of two years (eliminated in the consolidation process);
- lower sales of fire and other property insurance (-45.5% y/y) – acquisition of a long-term contract with the mining sector in the same period of 2015.

(in thousands of PLN)

Data from the profit and loss account – corporate insurance (non-life insurance)	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	474,621	412,353	*15.1%*
Net earned premium	364,782	353,484	*3.2%*
Investment income	28,017	21,762	*28.7%*
Net insurance claims	(170,613)	(137,408)	*24.2%*
Acquisition costs	(76,092)	(62,234)	*22.3%*
Administrative expenses	(25,741)	(32,593)	*(21.0)%*
Reinsurance commissions and profit-sharing	4,669	4,435	*5.3%*
Other	(12,582)	(1,538)	*718.1%*
Operating profit (loss)	**112,440**	**145,908**	***(22.9)%***
acquisition expense ratio (including reinsurance commissions) [1)]	19.6%	16.4%	*3.2 p.p.*
administrative expense ratio [1)]	7.1%	9.2%	*(2.1) p.p.*
loss ratio [1)]	46.8%	38.9%	*7.9 p.p.*
combined ratio (COR) [1)]	73.4%	64.4%	*9.0 p.p.*

[1)] Ratios calculated with net premium earned.

Net insurance claims and benefits surged 24.2% which with earned premium up by 3.2% signifies deterioration in the loss ratio by 7.9 percentage points. Growth was recorded chiefly in the following insurance group:

- motor own damage as a result of the rising average payout and the growing number of reported claims;
- general third party liability insurance - lower level of provisions for claims for losses from previous years in the corresponding period of 2015.

These adverse changes were partially offset by the decline in the level of claims and benefits in the insurance group for hull insurance in marine and inland navigation ships and insurance for guarantees.

The increase in the income from investments allocated to the corporate insurance segment was 28.7% y/y, which was dictated by the declining EUR exchange rate in the corresponding period of the previous year.

Acquisition expenses in the corporate insurance segment increased by o 22.3% as compared to Q1 2015, mainly due to higher direct acquisition expenses (including the effect of higher sales).

The decline in administrative expenses by PLN 6,852 thousand (i.e. by 21.0%) compared to the corresponding period of the previous year, was mostly due to lower costs in project activity and current activity concerning among others training, marketing and real estate expenses.

In Q1 2016 the corporate insurance segment (consisting of PZU, Link4 and TUW PZUW) generated operating profit of PLN 112,440 thousand, or 22.9% less than in the corresponding period of the previous year. The major contributing factor to lower operating profit was lower profitability in general third party liability insurance (the effect of falling provisions for claims in Q1 2015), insurance for various financial risks and casco insurance for aircraft partially offset by the growth in the result on motor own damage insurance (effect of the higher average premium and the number of insurance products).

Additionally, starting from Q1 2016, the corporate insurance segment will include the mutual insurance company TUW PZUW. The company is at its initial stage of business; its gross written premium in Q1 2016 was PLN 2.3 million. This company is covered by PZU's reinsurance program while all the transactions between PZU and this mutual insurance company are eliminated in the segment.

(in thousands of PLN)

13.2 Mass insurance – non-life insurance

Gross written premium by product group	1 January – 31 March 2016	1 January – 31 March 2015	% change
Motor TPL insurance	771,952	629,532	22.6%
MOD insurance	507,123	436,290	16.2%
Total motor insurance	1,279,075	1,065,822	20.0%
Insurance against fire and other damage to property	524,557	547,584	(4.2)%
Other liability insurance (groups 11, 12, 13)	134,663	136,584	(1.4)%
ADD and other insurance [1)]	208,598	199,411	4.6%
Total non-life insurance without motor insurance	867,818	883,579	(1.8)%
Total mass insurance segment (non-life insurance)	**2,146,893**	**1,949,401**	**10.1%**

[1)] This line item includes loan guarantees and other financial insurance, assistance, travel, marine, rail and air insurance.

In Q1 2016, in the mass insurance segment, gross written premium increased by PLN 197,492 thousand (+10.1% y/y) compared to the corresponding period of 2015. This growth resulted primarily from:

- higher gross written premium in motor insurance (+20.0% y/y) as the outcome of the higher average premium as a consequence of the hikes gradually being implemented;
- lower premium on fire and other property insurance (-4.2% y/y), including in agricultural insurance, mostly buildings in farms as a result of fierce market competition. This effect was partially offset by the higher premium originating from residential insurance under PZU DOM.

Data from the profit and loss account – mass insurance (non-life insurance)	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	2,146,893	1,949,401	*10.1%*
Net earned premium	1,732,206	1,654,139	*4.7%*
Investment income	126,829	102,697	*23.5%*
Net insurance claims	(1,223,570)	(957,452)	*27.8%*
Acquisition costs	(359,061)	(322,432)	*11.4%*
Administrative expenses	(145,955)	(162,229)	*(10.0)%*
Reinsurance commissions and profit-sharing	3,019	250	*x*
Other	(65,855)	(56,497)	*16.6%*
Operating profit (loss)	**67,613**	**258,476**	***(73.8)%***
acquisition expense ratio (including reinsurance commissions) [1)]	20.6%	19.5%	*1.1 p.p.*
administrative expense ratio [1)]	8.4%	9.8%	*(1.4) p.p.*
loss ratio [1)]	70.6%	57.9%	*12.7 p.p.*
combined ratio (COR) [1)]	99.6%	87.2%	*12.4 p.p.*

[1)] Ratios calculated with net premium earned.

Net insurance claims and benefits in the 3 months ended 31 March 2016 rose 27.8%, with net earned premium being 4.7% higher, translates into the loss ratio trending up by 12.7 percentage points.

This change resulted from:

- the growth in claims and benefits in the group of insurance for other physical losses, chiefly including insurance for subsidized crop insurance as an effect of the occurrence of numerous losses caused by the forces of nature (the claims for the adverse consequences of wintering were PLN 213.8 million higher than the average for the last 3 years);
- higher claims and benefits in motor TPL insurance, mainly as a result of the rising average payout and the faster pace of reported claims;
- the upswing in the assistance insurance group (road assistance - Pomoc w Drodze).

(in thousands of PLN)

These adverse changes were partly offset by the following:

- lower level of losses in the general third party liability insurance group and in MOD.

The increase in the income from investments allocated to the mass segment was 23.5% y/y, which was dictated by the declining EUR exchange rate in the corresponding period of the previous year.

Acquisition expenses in the mass insurance segment climbed 11.4% in comparison to Q1 2015, mainly due to the growth in commissions (higher sales in distribution channels that receive commissions) and inward reinsurance commissions (eliminated at the consolidated level).

Decrease of administrative expenses by PLN 16,224 thousand (i.e. by 10.0%) compared to Q1 2015, as a result of lower costs in project activity and current activity concerning among others training, marketing and real estate expenses.

The decline in operating profit in the mass insurance segment by PLN 190,863 thousand (-73.8%) compared to the Q1 2015 was chiefly attributable to deterioration in profitability in agricultural insurance (substantial rise in loss due to the occurrence of numerous mass claims) and to a lesser extent in motor TPL insurance (outcome of the higher average claim value and the growth in the unexpired risk provision) partially offset by the growth in the result in motor own damage insurance (higher earned premium) and general third party liability.

13.3 Group and individually continued insurance – life insurance

Data from the income statement – group and individually continued insurance	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	1,688,875	1,661,216	*1.7%*
Group insurance (regular premium)	1,204,770	1,178,359	*2.2%*
Individually continued insurance (regular premium)	484,105	482,857	*0.3%*
Net earned premium	1,689,004	1,661,325	*1.7%*
Investment income	190,135	196,357	*(3.2)%*
Net insurance claims	(1,213,131)	(1,241,506)	*(2.3)%*
Change in other net technical provisions	(101,712)	(101,001)	*0.7%*
Acquisition costs	(88,432)	(92,686)	*(4.6)%*
Administrative expenses	(144,142)	(146,826)	*(1.8)%*
Other	(16,670)	(8,361)	*99.4%*
Operating profit (loss)	**315,052**	**267,302**	***17.9%***
Operating profit (loss) excluding the conversion effect	**304,102**	**243,871**	***24.7%***
acquisition expense ratio [1)]	5.2%	5.6%	*(0.4) p.p.*
administrative expense ratio [1)]	8.5%	8.8%	*(0.3) p.p.*
operating margin excluding the conversion effect [1)]	18.0%	14.7%	*3.3 p.p.*

[1)] Ratios calculated with gross premium written.

The increase in gross written premium by PLN 27,659 thousand (+1.7%) was mainly due to the following:

- growth in group protection insurance (higher average premium, more insureds and the higher average number of riders per insured);
- acquisition of premiums in group health insurance (new clients in outpatient health insurance and sales of different options of the medicine product);
- up-selling of riders and raising sums insured in individually continued insurance products.

The investment result consists of income allocated according to transfer prices and income on investment products. The investment income in the group and individually continued insurance segment fell by PLN 6,222 thousand, chiefly as a result of lower income in unit-linked products. The income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Net insurance claims and benefits closed at PLN 1,213,131 thousand (down 2.3%). This change was driven by the following factors in particular:

(in thousands of PLN)

- in protection insurance – the decrease in the incidence of deaths compared to last year, confirmed by statistics published by the Central Statistics Office [GUS] for the entire population (higher mortality in early 2015);
- the lower level of transfer payments in the PPE employee pension schemes;
- in short-term endowment products in the bancassurance channel (in the form of deposits) – lower payouts linked to reaching the endowment age - most product tranches have matured; without exerting an impact on the result - offset by the movement in technical provisions;
- these effects are partially offset by higher health benefits as a consequence of the rapid expansion in the health products portfolio.

The movement in net other technical provisions remained at a similar level as in the comparable period of last year. It was PLN 101,712 thousand compared to PLN 101,001 thousand last year. The differences resulted from the lower level of provisions in individually continued products due to the higher percentage among persons entering the product portfolio post modification facilitating the creation of lower initial technical provisions. Moreover, the slightly slower pace of converting long-term insurance policies into yearly-renewable term business in type P group insurance exerted an influence on the size of the provisions. As a result, provisions were released for PLN 10,950 thousand, some PLN 12,481 thousand less than in the corresponding period of 2015.

Acquisition expenses in the group and individually continued insurance segment in Q1 2016 were PLN 88,432 thousand, and were down by PLN 4,254 thousand (4.6%) compared to the corresponding period of last year. The factors driving the limitation in the level of direct and indirect acquisition expenses was the lower volume y/y of new groups acquired for protection products, only partially offset by the rapid expansion in the portfolio of health contracts.

Lower administrative expenses by PLN 2,684 thousand (1.8%) in Q1 2016 compared to the corresponding period of 2015 resulted primarily from curtailing expenses in project activity and current activity, among others, training and real estate expenses.

The year on year decline in the result in the line item other revenues and expenses by PLN 8,309 thousand followed from the charge to the Prevention Fund being made earlier than last year (PAS expense – not considered in the consolidated result under IFRS). This additional charge was partially offset by the lower expenses than last year of PZU Życie financing premium (lower sales of riders to individually continued insurance on promotional terms).

Operating profit in the group and continued insurance segment in Q1 2016 climbed compared to the corresponding period of 2015 by PLN 47,750 thousand (17.9%) to PLN 315,052 thousand. Operating profit, excluding the effect of converting long-term contracts into renewable contracts in type P group insurance rose by PLN 60,231 thousand y/y (24.7%) – mainly as a result of the lower loss ratio in the protection portfolio (lower incidence of deaths) and the changes in the mix of persons joining the individual continuation portfolio.

13.4 Individual insurance - life insurance

Gross written premium by payment type – individual insurance	1 January – 31 March 2016	1 January – 31 March 2015	% change
Regular premium	127,582	131,045	*(2.6)%*
Single premium	118,949	207,617	*(42.7)%*
Total	**246,531**	**338,662**	***(27.2)%***

The decrease in gross written premium compared to the first 3 months of 2015 by PLN 92,131 thousand (-27.2%) was the result of the following:

- lower payments to unit-linked insurance accounts offered jointly with Bank Millennium;
- lower value of subscriptions for structured products in the proprietary channel compared to the record-breaking Q1 of the previous year;
- lower though still very high average contributions to IKE individual retirement accounts.

The following factors produced positive effects: high sales of individual protection products, especially in PZU Group Branches and launching a new unit-linked product at the end of 2015 called *Cel na Przyszłość* (*Goal for the Future*).

(in thousands of PLN)

Data from the income statement – individual insurance	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	246,531	338,662	*(27.2)%*
Net earned premium	249,238	340,108	*(26.7)%*
Investment income	12,461	165,847	*(92.5)%*
Net insurance claims	(359,536)	(196,647)	*82.8%*
Change in other net technical provisions	195,082	(218,827)	*x*
Acquisition costs	(25,291)	(31,015)	*(18.5)%*
Administrative expenses	(14,885)	(16,008)	*(7.0)%*
Other	(1,969)	(179)	*x*
Operating profit (loss)	**55,100**	**43,279**	***27.3%***
acquisition expense ratio [1)]	10.3%	9.2%	*1.1 p.p.*
administrative expense ratio [1)]	6.0%	4.7%	*1.3 p.p.*
operating profit margin [1)]	22.4%	12.8%	*9.6 p.p.*

[1)] Ratios calculated with gross premium written.

The investment result consists of income allocated according to transfer prices and income on investment products. It fell year on year by PLN 153,386 thousand in the individual insurance segment, chiefly on account of the losses recorded in investment products - the outcome of falling rates of return generated by funds in unit-linked products in the bancassurance channel. The income generated by investment products also contains revenue for the management fee which is recording material growth compared to the corresponding period of 2014, that being the result of the constant growth in net asset value. Income allocated by transfer prices remained at a similar level as in the comparable period of last year.

Net insurance claims and benefits were PLN 359,536 thousand, i.e. they rose 82.8% compared to the corresponding period of 2015. The rising numbers and average value of surrenders in the unit-linked portfolio in the bancassurance channel were contributing factors, aided additionally by the higher level of people reaching the endowment age in structured products (maturing of subsequent tranches) and in long-term protection products. The adverse impact exerted by these factors on the operating result (except for the lack of fees for early redemption) was offset by a commensurate movement in technical provisions.

The lower level of net other technical provisions in Q1 2016 (decline in the three months by PLN 195,082 thousand) compared to last year's growth of PLN 218,827 thousand. This difference was related chiefly to the negative investment result generated this year in the portfolio of bank unit-linked products (positive result last year) and at the same time to the lower level of sales and the higher level of surrenders in this portfolio.

The significant decline in acquisition expenses in this segment (by PLN 5,724 thousand, i.e. by 18.5%) ensued above all from lower sales of unit-linked insurance in the bancassurance channel and to a lesser extent from the modification to the compensation system for the agency network and the lower sales of new protection products in this channel y/y.

Administrative expenses fell by PLN 1,123 thousand (-7.0%) in the three months of 2016 compared to the corresponding period of 2015 primarily from the higher effectiveness of the agency network in handling individual products while additionally curtailing expenses in project activity and current activity, among others, training and real estate expenses.

The year on year decline in the result in the line item other revenues and expenses by PLN 1,790 thousand followed from the charge to the Prevention Fund being made earlier than last year (PAS expense – not considered in the consolidated result under IFRS).

The segment's operating result rose in comparison to last year by PLN 11,821 thousand to PLN 55,100 thousand mainly due to the higher percentage of protection products in the segment's revenues as they command a much higher margin and additionally the significant decline in acquisition expense (also on protection products).

(in thousands of PLN)

13.5 Bank segment

As at the end of March 2016 PZU and its subsidiaries hold a 29.22% equity stake in Alior Bank. Alior Bank became subject to consolidation on 18 December 2015, while the banking segment was distinguished in the PZU Group's results on 1 January 2016.

In Q1 of this year the bank segment recorded operating profit of PLN 106,261 thousand. At the same time, taking into consideration the 29.22% equity stake held by the PZU Group in the bank, the bank segment contributed PLN 31,049 thousand to the result attributable to the parent company in Q1 2016 (without including amortization of intangible assets purchased in Alior Bank acquisition transaction).

The interest result ("Net investment income", "Interest expenses") was PLN 412,494 thousand and was up 19.8% from the corresponding period of the previous year, among others, thanks to the higher credit base (+19.4% compared to 31 March 2015). The interest margin[4] was 4.2%.

Impairment losses for receivables from clients ("Net result on realization of investments and impairment charges") at the level of PLN 106,476 thousand were 13.2% higher, which stemmed from the growth in the magnitude of business.

The result on commissions and fees was PLN 87,261 thousand in Q1 2016, which represented income at the level of 94% in comparison with the corresponding period of the previous year, in particular as a result of the lower compensation for intermediation in the sale of insurance products.

The cost to income ratio[5] was 47.8% and was 1.4 percentage points lower than in the corresponding period of the previous year, which was the outcome of better income on banking activity while observing cost discipline.

In Q1 of this year the net credit receivables from clients demonstrated a positive growth rate (+6.1%) and as at 31 March 2016 they were PLN 32,170,137 thousand. Growth was recorded in the retail client segment (consumer loans and consumer finance) and in the business client segment (operating loans).

13.6 Pension insurance

Data from the income statement – pension segment	1 January – 31 March 2016	1 January – 31 March 2015	% change
Revenues on core business of non-insurance entities	23,934	26,356	*(9.2)%*
Acquisition and administrative expenses	(1,030)	(740)	*39.2%*
Administrative expenses	(8,574)	(11,318)	*(24.2)%*
Other	3,243	2,696	*20.3%*
Operating profit (loss)	**17,573**	**16,994**	***3.4%***

Revenues on fees and commissions in the pension insurance segment for Q1 2016 and Q1 2015 were PLN 23,934 thousand and PLN 26,356 thousand, respectively. The change by -PLN 2,422 thousand (-9.2%) resulted mainly from lower revenues for managing the open-end Pension Fund PZU Złota Jesień as a result of the lower average net asset value under management, which was caused by the softer situation on the financial markets and the "slide" mechanism (10 years prior to a given insured reaching the retirement age, a specified amount of assets accumulated on an OFE member's account is transferred every month to a sub-account in ZUS).

Acquisition and administrative expenses were PLN 290 thousand (+39.2%) higher, mainly due to the information campaigns conducted in 2016 in the context of the transfer window and the option to change the declaration on the transfer of assets from ZUS to OFE.

[4] The interest result / average level of working assets (cash and funds with the central bank, financial assets,receivables from banks and clients) calculated against the balance at the beginning and end of the period; data according to the presentation in the Alior Bank Group's consolidated statements, annualized ratio.

[5] Ratios of total business expenses minus the tax on capital institutions / result on banking activity (gross profit minus business expenses and the result on impairments); data according to the presentation in the Alior Bank Group's consolidated statements.

(in thousands of PLN)

PTE PZU's administrative expenses dropped by PLN 2,744 thousand (-24.2%). The main driver of the deviation was the higher payment to the Guarantee Fund administered by KDPW in Q1 2015 in comparison with the corresponding period of the current year (+1,752 thousand) stemming from the higher level of assets under management at the end of Q1 2015. The fees to the Polish FSA, the Insureds' Ombudsman and the custodian were also lower; they are also the outcome of the lower net asset value of the Open-end Pension Fund PZU Złota Jesień. Moreover, other administrative expenses, including payroll expenses (PLN -255 thousand) and real estate maintenance expenses (PLN -153 thousand) declined.

The growth in operating profit by PLN 579 thousand y/y resulted chiefly from lower administrative expenses in the current year in the form of the lower payment to the Guarantee Fund.

At the end of Q1 2016, OFE PZU had 2,204 thousand members, i.e. 13.4% of the total number of members of all existing open-end pension funds, ranking OFE PZU third on the market in this respect. Compared to the balance as at the end of Q1 of the previous year, the number of OFE PZU members decreased by 17.3 thousand, i.e. 0.8%, while the total number of members of all open-end pension funds decreased by 0.6% y/y.

At the end of Q1 2016 the total net asset value of all OFEs on the market was PLN 143.5 billion, down 7.5% from the end of March 2015. In the same period OFE PZU's assets fell by 8.2% to PLN 18.7 billion. In the period from January to March 2016, ZUS transferred PLN 76.1 million in gross contributions with interest to OFE PZU, 0.2% less than in the corresponding period of 2015. OFE PZU transferred PLN 142.7 million to ZUS in what is known as the "slide". OFE PZU's rate of return in the period of 3 months of 2016 was +1.8%.

13.7 Baltic States

Data from the income statement – Baltic States segment	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	273,667	289,764	*(5.6)%*
Net earned premium	261,719	270,782	*(3.3)%*
Investment income	4,003	14,720	*(72.8)%*
Net insurance claims	(166,704)	(171,678)	*(2.9)%*
Interest expense	(505)	(311)	*62.4%*
Acquisition costs	(60,551)	(74,394)	*(18.6)%*
Administrative expenses	(30,282)	(36,398)	*(16.8)%*
Reinsurance commissions and profit-sharing	327	431	*(24.1)%*
Operating profit (loss)	**8,007**	**3,152**	***154.0%***
EUR exchange rate in PLN	4.3559	4.1489	*5.0%*
Non-life insurance			
acquisition expenses ratio (including reinsurance commission)[1]	22.7%	27.1%	*(4.4) p.p.*
administrative expense ratio [1]	11.7%	13.6%	*(1.9) p.p.*
claim ratio [1]	63.7%	61.6%	*2.1 p.p.*
combined ratio (COR) [1]	98.2%	102.3%	*(4.1) p.p.*
Life insurance			
acquisition expense ratio [2]	29.0%	33.1%	*(4.1) p.p.*
administrative expense ratio [2]	8.0%	8.8%	*(0.8) p.p.*
loss ratio [2]	63.3%	110.7%	*(47.4) p.p.*
operating profit margin	(1.0)%	5.1%	*(6.1) p.p.*

[1] Ratios calculated with net premium earned.
[2] Ratios calculated against gross written premium.

As part of the Baltic operations, the PZU Group offers non-life insurance and life insurance products. Non-life insurance is offered by entities acquired in 2014: Lietuvos Draudimas – leader of the Lithuanian, AAS Balta – leader of the Latvian market and Estonian branch of Lietuvos Draudimas. Life insurance is sold by UAB PZU Lietuva Gyvybes Draudimas.

The Lithuanian non-life market share at the end of March 2016 was 27.1%; the life insurance market share was 5.4%. At the end of last year the Latvian market share was 26.0%. In turn, the Estonian market share at the end of Q1 2016 was 14.2%.

(in thousands of PLN)

In connection with extending operations in the Baltic States and the transaction to acquire the leaders on the Lithuanian and Latvian markets, PZU signed an agreement to sell PZU Lithuania in February 2015 for the purpose of satisfying the conditions for consent from the Lithuanian antitrust authority to acquire Lietuvos Draudimas. This sales transaction was executed on 30 September 2015. In this manner, the results of the Baltic States segment presented the premium generated not just by the newly-acquired companies but also PZU Lithuania up to 30 September 2015. In the first quarter of last year, the gross written premium of the segment excluding PZU Lithuania amounted to PLN 237,230 thousand.

In Q1 2016, in the Baltic States segment, premium amounting to PLN 273,667 thousand was accumulated, of which:

- 47.8% was the premium generated by Lietuvos Draudimas - largely pertaining to motor and property insurance;
- 31.2% was the premium collected in Latvia - pertaining primarily to motor, health and property insurance;
- 16.8% was the premium generated in Estonia - mainly pertaining to motor and property insurance;
- 4.2% on life insurance.

The operating result amounted to PLN 8,007 thousand and was higher than in the corresponding period of last year by PLN 4,855 thousand. The net result on investing activity was PLN 4,003 thousand and was PLN 10,717 thousand lower than last year - in 2015 PZU Lithuania's result contributed to the segment's result. Compared to the corresponding period of the previous year the segment's loss ratio was 0.3 p.p. higher and amounted to 63.7%. Claims and benefits were PLN 166,704 thousand. The acquisition expense ratio (including bonuses and profit sharing) fell by 4.3 p.p. to 23.0% in comparison with the previous year. Acquisition expenses and bonuses and profit sharing totaled PLN 60,224 thousand. Administrative expenses were PLN 30,282 thousand; in turn, the administrative expense ratio fell by 1.9 p.p. to 11.6%. The fall in costs in comparison to the corresponding period of the previous year was mailing associated with PZU Lithuania's contribution in the result of Q1 2015.

13.8 Ukraine

Data from the profit and loss account – Ukraine segment – non-life and life insurance together	**1 January – 31 March 2016**	**1 January – 31 March 2015**	**% change**
Gross written premium	57,958	35,239	*64.5%*
Net earned premium	23,789	23,135	*2.8%*
Investment income	7,585	24,763	*(69.4)%*
Net insurance claims	(17,636)	(35,989)	*(51.0)%*
Interest expense	-	(32)	*x*
Acquisition costs	(11,988)	(9,979)	*20.1%*
Administrative expenses	(4,353)	(4,083)	*6.6%*
Reinsurance commissions and profit-sharing	4,716	959	*391.8%*
Operating profit (loss)	**2,113**	**(1,226)**	*x*
UAH exchange rate in PLN	0.1500	0.1700	*(11.8)%*
Non-life insurance			
acquisition expenses ratio (including reinsurance commission)[1)]	23.0%	36.7%	*(13.7) p.p.*
administrative expense ratio [1)]	23.7%	19.3%	*4.4 p.p.*
claim ratio [1)]	69.1%	53.1%	*16.0 p.p.*
combined ratio (COR) [1)]	115.8%	109.1%	*6.7 p.p.*
Life insurance			
acquisition expense ratio [2)]	42.8%	44.4%	*(1.6) p.p.*
administrative expense ratio [2)]	8.8%	14.1%	*(5.3) p.p.*
loss ratio [2)]	81.1%	388.1%	*(307.0) p.p.*
operating profit margin [2)]	23.0%	(4.8)%	*27.8 p.p.*

[1)] Ratios calculated with net premium earned.
[2)] Ratios calculated against gross written premium.

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

(in thousands of PLN)

From January to March 2016 the Ukraine segment collected premiums of PLN 57,958 thousand, signifying a growth rate of 64.5% compared to the corresponding period of the previous year.

The contract signed in January 2016 with a new corporate client contributed to such rapid growth in the gross written premium.

In Q1 2016 a positive operating result at the segment level of PLN 2,113 thousand was recorded. The net investment result was PLN 7,585 thousand, down by PLN 17,178 thousand in comparison to the corresponding period of the previous year. The value of claims and benefits was PLN 17,636 thousand, down by PLN 18,353 thousand on account of the significant payment of benefits in life insurance last year. The segment's loss ratio was 74.1%. The acquisition expense ratio (including bonuses and profit sharing) fell by 8.4 p.p. to 30.6% as a result of signing reinsurance treaties in the PZU Group. Acquisition expenses and bonuses and profit sharing totaled PLN 7,272 thousand. Administrative expenses rose to PLN 4,353 thousand on account of the hrivna's depreciation. The administrative expense ratio was 18.3%.

13.9 Investment contracts

In the consolidated financial statements investment contracts are recognized in accordance with the requirements of IAS 39.

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

Volumes obtained on investment contracts by payment type	1 January – 31 March 2016	1 January – 31 March 2015	% change
Regular premium	13,578	13,981	*(2.9)%*
Single premium	33,778	29,507	*14.5%*
Total	**47,356**	**43,488**	***8.9%***

Gross written premium generated on investment contracts during Q1 2016 increased by PLN 3,868 thousand (+8.9%) compared to the corresponding period in 2015 to PLN 47,356 thousand. The changes in gross written premium were caused mainly by:

- higher volume of short-term endowment insurance products through proprietary sales channels;
- lack of sales of unit-linked contracts offered jointly with Bank Millennium.

The short-term endowment insurance products sold through proprietary channels are only renewals for subsequent periods under previously concluded agreements. In turn, the product with Bank Millennium was totally converted into an individual insurance contract.

Data from the income statement – investment contracts	1 January – 31 March 2016	1 January – 31 March 2015	% change
Gross written premium	47,356	43,488	*8.9%*
Group insurance	733	856	*(14.4)%*
Individual insurance – life insurance	46,623	42,632	*9.4%*
Net earned premium	47,368	43,477	*8.9%*
Investment income	6,051	24,849	*(75.6)%*
Net insurance claims	(83,346)	(219,603)	*(62.0)%*
Change in other net technical provisions	34,145	156,432	*(78.2)%*
Acquisition costs	(1,661)	(2,628)	*(36.8)%*
Administrative expenses	(2,716)	(2,515)	*8.0%*
Other	(141)	(69)	*104.3%*
Operating profit (loss)	**(300)**	**(57)**	***426.3%***
operating profit margin [1)]	(0.6)%	(0.1)%	*(0.5) p.p.*

[1)] Ratios calculated with gross premium written.

(in thousands of PLN)

Investment income in the investment contracts segment deteriorated by PLN 18,798 thousand, chiefly as a result of falling rates of return of mutual funds in unit-linked products in the bancassurance channel as well as the fall in the amount of investments in this product and short-term endowment products.

Net claims and benefits fell year on year as a consequence of the significantly lower level of endowment payouts under short-term investment endowment products in the bancassurance channel and in the own channel (last year large ticket tranches matured; no sales through banks in subsequent periods) and in addition the significantly lower average surrender value for unit-linked products. They were PLN 83,346 thousand, i.e. they were down 62.0% from last year. At the same time, the effects described above did not have a significant impact on the operating result on account of the corresponding movement in the technical provisions.

The downward movement in net technical provisions was lower than last year. In Q1 2016 it was PLN 34,145 thousand compared to PLN 156,432 thousand in the previous year. The difference resulted mainly from changes in the portfolio of short-term investment endowment products, i.e. the significant drop in the level of people reaching the endowment age in these types of agreements.

Acquisition expenses were at PLN 1,661 thousand, declining by 36.8% from the previous year. This was an effect of a significant reduction of sales and declining value of assets in unit-linked products in the bancassurance channel (a portion of fee for the bank depends on the level of assets) and additionally also declining involvement of the company's own network in selling short-term investment endowment products.

Administrative expenses were PLN 2,716 thousand, signifying growth of PLN 201 thousand compared to 2015 – as a consequence of higher IT expenses associated with the administration of the product system for unit-linked products.

The year on year difference in the category other income and expenses (the expense was up by PLN 72 thousand) followed from the charge to the Prevention Fund being made earlier than last year (expense according to PAS - eliminated when consolidating the result).

The operating result of the segment was PLN -300 thousand, compared to PLN -57 thousand in the 3 month period of 2015, chiefly as a result of the decrease in the management fee (decline in assets in unit-linked products).

13.10 Investments

The PZU Group's net result on investment activity in the first 3 months of 2016 rose 0.7% compared to the result generated in the comparable period of the previous year.

Net investment result	1 January – 31 March 2016	1 January – 31 March 2015	% change
Equity instruments	(20,838)	369,810	*x*
Interest-bearing financial assets, including:	879,263	585,138	*50.3%*
Bank loans and accounts receivable	515,446	-	*x*
Own debt securities	(11,391)	86,496	*x*
Investment properties	25,793	4,192	*x*
Derivatives, including:	155,403	96,020	*61.8%*
Hedging derivatives	113,912	-	*x*
Other	(8,293)	(30,818)	*x*
Total	**1,031,328**	**1,024,342**	***0.7%***

In Q1 2016 the PZU Group's net investment result was PLN 1,031,328 thousand compared to PLN 1,024,342 thousand in the corresponding period of 2015 (up 0.7%) chiefly due to the higher result recorded on interest bearing financial assets and derivatives, among others, as a result of starting to consolidate Alior Bank.

Net of Alior Bank's consolidated assets, the result generated in Q1 2016 was lower than in the comparable period of 2015 chiefly due to the following:

- lower result on equity instruments caused in particular by the lower market valuation of companies in the portfolio of equities held for the long-term;
- recognition of FX differences on appraisals at the time of making a semi-annual valuation while concurrently settling on a continuous basis the differences from the valuation of the instruments used to hedge the exchange rate.

(in thousands of PLN)

The net investment result does not include interest expenses whose level in Q1 2016 was PLN 274,321 thousand and was higher than in the corresponding period of the previous year by PLN 238,894 thousand, in particular in connection with commencing the consolidation of Alior Bank and the issue of its own debt securities for EUR 350 000 thousand in October 2015.

Interest expenses	1 January – 31 March 2016	1 January – 31 March 2015	% change
Repurchase transactions	11,056	21,689	*(49.0)%*
Own debt securities, including:	41,742	7,974	*423.5%*
Hedging derivatives	103,680	-	*x*
Bank deposits	114,285	-	*x*
Other	3,558	5,764	*(38.3)%*
Total	**274,321**	**35,427**	*x*

Income in the Investments segment in Q1 2016 fell by PLN 218,744 thousand in comparison to the corresponding period of the previous year. In connection with the consolidation of Alior Bank, the bank activity segment has been distinguished chiefly entailing interest revenues on bank loans and treasury bonds in the bank's portfolio.

Net investment result - split into segments	1 January – 31 March 2016	1 January – 31 March 2015	% change
Investment Segment (external operations)	119,447	338,191	*(64.7)%*
Insurance activity segments (PZU / PZU Życie / Link4)	357,442	486,663	*(26.6)%*
Banking activity segment	564,718	-	*x*
Other segments and adjustments	(10,279)	199,488	*x*
Total	**1,031,328**	**1,024,342**	***0.7%***

At the end of March 2016 the value of the PZU Group's investment portfolio[6] was PLN 56,426,728 thousand compared with PLN 55,411,163 thousand as at the end of 2015.

The PZU Group's investment activity complies with the statutory requirements while maintaining an adequate degree of safety, liquidity and profitability; that is why government debt securities constituted over 60% of the investment portfolio both as at 31 March 2016 and 31 December 2015.

The high percentage of money market instruments (reverse repo transactions and term deposits with credit institutions) was caused inter alia by entering into transactions on the interbank market to enhance the return on investing activity and to adjust the investment portfolios to their benchmarks.

Investment portfolio	31 March 2016	31 December 2015
Equity instruments, including:	7,006,350	7,060,697
Equity instruments, for which fair value can be determined – listed	3,707,927	3,522,600
Equity instruments, for which fair value can be determined – other	3,281,292	3,521,381
Equity instruments, for which fair value cannot be determined	17,131	16,716
Interest-bearing financial assets, including:	49,186,300	50,800,581
Debt securities – government	36,924,065	36,384,724
Debt securities – other	4,240,477	4,075,028
Reverse repo transactions and term deposits with credit institutions	6,002,908	8,411,784
Loans	2,018,850	1,929,045
Investment properties	1,219,152	1,171,721
Derivatives (net value)	131,809	172,470
Liabilities on account of repurchase transactions	(1,116,883)	(3,794,306)
Total	**56,426,728**	**55,411,163**

The investment portfolio is presented net of other financial assets and liabilities valued at the end of March 2016 at PLN 9,530,882 thousand compared to PLN 9,421,418 thousand at the end of 2015.

[6]The investment portfolio includes financial assets (including investment products net of loan receivables from clients), investment properties, the negative measurement of derivatives and liabilities for buy back transactions.

(in thousands of PLN)

Other financial assets and liabilities	31 March 2016	31 December 2015
Liabilities on the issue of own debt securities	3,556,521	3,536,546
Issue of own bank securities	2,381,647	2,291,896
Subordinated debt	800,761	758,560
Loan received	140,651	124,780
Investment contracts	511,839	545,436
Liabilities to members of consolidated mutual funds	677,240	656,449
Net receivables and liabilities for loans and deposits, including:	879,402	912,109
Receivables for loans	(32,170,137)	(30,331,615)
Liabilities for deposits	33,049,539	31,243,724
Other liabilities	582,821	595,642
Total	**9,530,882**	**9,421,418**

14. Impact of non-recurring events on operating results

The conversion effect of long-term policies into yearly renewable term agreements in type P group insurance treated as a non-recurring event was lower in Q1 2016 by PLN 12,481 thousand in comparison with the comparable period of the previous year.

In Q1 2016 higher claims were recorded in agricultural insurance than the averge for the last 3 years totaling PLN 213,826 thousand.

15. Macroeconomic environment

Basic trends in the economy and pace of economic growth

We estimate that the pace of GDP growth in Q1 2016 decelerated to roughly 3.5% y/y from 4.3% y/y one quarter earlier. In this period the growth rate of industrial production sold decelerated to 3.0% y/y compared to 6.0% y/y in Q4 2015. Construction and assembly production was down 13.3% in Q1 2016 in comparison with the corresponding period of the previous year, which results from the downtime in the execution of projects co-financed with EU funds and the expiry of local governments' investing activity. At the same time, the pace of growth in the volume of retail sales slowed in Q1 2016 - the monthly average slowed to 4.1% y/y compared to 5.4% y/y in Q4 2015.

Just as in 2015 domestic demand was the main driver of GDP growth in Poland in Q1 2016. The persisting improvement in the situation on the labor market and the relatively high pace of growth in real wages and the announcement of higher social expenditures created favorable conditions for consumption to grow. The growth rate of consumer loans is gradually accelerating in conditions of record-breaking low interest rates and the somewhat less restrictive lending policy pursued by banks. The conditions for private investment expansion remained conducive. The production capacity utilization ratio rose in Q1 and is relatively high while the robust financial standing of corporates and the low interest rates make it easier to underwrite investments. Moreover, housing investments are growing relatively quickly. However, the NBP's analyses indicate that the greater uncertainty linked to tax burdens has exerted an unfavorable impact on the interest in new investments in Q1. Q2 investment plans have nevertheless been adjusted upward. In turn, the transition period between the usage of funds from the previous and current EU financial perspective is adversely affecting the growth rate of public investments at present.

In Q4 2015 the volume of exports was explicitly on the rise (according to national accounts), while the growth rate of exports clearly outpaced the growth rate of imports, which was also accelerating. The faster growth in domestic demand in 2016 should attract imports more strongly than in 2015. The impact exerted by net exports on the GDP growth rate should become slightly negative this year even though the robust growth in exports will be upheld.

At the end of Q1 the external threats posed to global economic growth, and hence to the Polish economy's growth slackened somewhat. The US central bank signaled caution in raising interest rates. The US dollar has weakened, thereby reducing the pressure to appreciate the Chinese yuan. Good information concerning economic growth in Q1 was reported in China and the Eurozone, while oil prices were on the rise.

Labor market and consumption

In Q1 2016 the labor market continued to improve. Employment in the corporate sector increased by 101 thousand persons compared to 27 thousand in the same period of the previous year. The annual pace of growth in employment in businesses accelerated in Q1 2016 to 2.6% y/y, compared to 2.0% y/y in the previous quarter. This intensive incremental growth in employment reflects higher demand for labor - the number of job offers is clearly higher than last year - and the switch from mandate contracts to employment contracts as a result of levying social security contributions on mandate contracts.

Slight seasonal growth in the rate of registered unemployment accompanied the upswing in employment in Q1 2016. In March it was 10.0% compared to 9.8% at the end of 2015, down 1.5 percentage points from March 2015. In the same period, the registered unemployment rate adjusted for seasonality steadily declined.

The average monthly wage in the corporate sector increased in Q1 2016 by 3.7% y/y, compared to 3.4% y/y in the previous two quarter, and if adjusted for price volatility, by 4.7% y/y compared to 4.2% y/y in Q4 2015. As NBP's analyses indicate, the pressure on wage hikes rose somewhat in this period; however, it remained at a relatively low level. The faster growth of employment and wages and greater extent of deflation contributed to the real growth rate of wages in businesses in Q1 2016 climbing markedly - to 7.2% y/y compared to 5.4% y/y in the last quarter of 2015. This is the fastest growth rate since Q3 2008. The real income of households is rising at a relatively fast pace creating conducive conditions for growth of consumption. Despite the softening of the growth rate in retail sales volume in Q1 2016 compared to Q4 2015, the pace of growth in household consumption should at least remain stable in this period.

Monetary policy, interest rates and inflation

In Q1 2016 the consumer price index (CPI) dropped -0.9% y/y compared to -0.6% y/y in Q4 2015. The decline in fuel and energy prices contributed to greater deflation. Net inflation (net of food and energy prices) was negative in this period (-0.1% y/y), signaling a lack of demand-side pressure for price expansion. At present, the economy does not have any cost pressure either, while inflation expectations continue to be anchored at a very low level.

From January to April 2016 the Monetary Policy Council did not alter interest rates. The reference interest rate remains at the level of 1.50% as set in March 2015.

Public finance

The Central Statistical Office (GUS) announced that in 2015 the debt of the central government and local government institutions sector amounted to 51.3% of GDP and the deficit of this sector dropped to 2.6% of GDP from 3.3% in 2014 (according to the ESA 2010 standard). In Poland's Long-term Financial Plan for 2016-2019 it has been assumed that this deficit will stay at 2.6% of GDP in 2016.

The state budget deficit after March of this year was only PLN 9.6 billion, which accounted for approximately 18% of the plan for 2016 and was a very good result from a historical standpoint. The positive impact exerted by non-recurring factors on the income side was material (proceeds of PLN 7.1 billion under the auction for frequency reservation in the 800 Mhz and 2.6 Ghz bandwidth). However, the favorable growth rate in the proceeds from indirect taxes in Q1 2016 (5.5% y/y) also contributed to the budget's robust result in Q1 2016.

The borrowing needs for 2016 were at the end of March of this year financed at about 52%.

Situation on the financial markets

The changes in how the EBC and FED's future monetary policy are perceived and the greater demand for safe assets have meant that the yields on 10-year T-bonds on the US and German markets have fallen by roughly 50 basis points since the end of 2015.

In January and February 2016 Poland's 10-year T-bonds slightly lost in value in connection with the greater risk aversion on the markets and Poland-specific circumstances (among others the worse assessment of Poland's fiscal perspectives made by the European Commission and the downgrade in the sovereign rating by the Standard & Poor's Rating Agency). However, in Q1 2016 their yields ultimately edged down by approximately 10 basis points to approximately 2.85%

during Q1 2016. The reduction in global uncertainty at the end of the quarter and the decline in Poland's risk premium in March 2016, which even so remained high, offered some help. The yields on Polish treasuries with a one year maturity in Q1 2016 also edged down by roughly 10 basis points.

In this period the difference between the yields on Polish and German 10-year treasuries rose to roughly 270 basis points. They temporarily exceeded 290 basis points, which occurred for the last time at the end of 2012.

According to Ministry of Finance data, the share of foreign investors in market Treasury bonds issued in the domestic market decreased from the end of 2015 by roughly 5 percentage points to 35.4% at the end of March 2016.

The FX market was also influenced by the scaling back of expectations concerning the Fed making monetary policy more stringent in 2016. The euro exchange rate expressed in the US currency rose from approximately 1.09 at the end of 2015 to approximately 1.14 at the end of March 2016, i.e. almost by 5%. In the same period, the Polish currency depreciated versus the Euro by 0.2%, while at the same time appreciating against the US dollar by 3.6%. Additionally, the zloty strengthened by 0.9% against the Swiss franc.

The first weeks of 2016 were awful on the equity markets, especially in Europe. However, later the situation improved markedly – especially in the US and on emerging markets, which was aided among others by the change in expectations concerning the Fed's future policy and the attenuation of uncertainty regarding growth in the global economy. The American Dow Jones Composite 65 rose by roughly 5% in Q1 2016. The German DAX 30 lost more than 7% from the end of 2015.

In turn, Polish stock market indices recorded robust growth in Q1 2016. The WIG and WIG20 indices climbed 5.5% and 7.5%, respectively. This transpired despite the 5% losses in the year's first few weeks. The excellent pace of economic growth in Poland in Q4 2015 and the generally favorable financial results of companies listed on the Warsaw Stock Exchange assuredly contributed to the robust performance of the Polish equity market.

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

PZU did not publish any standalone or consolidated result forecasts.

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

17.1 Non-life insurance

The following are the main risk factors that may affect the results in the mass and corporate insurance segments (non-life insurance) in the subsequent quarter of 2016:

- occurrence of catastrophic events (floods, hurricanes, drought, spring ground frosts);
- slowdown in economic growth or stagnation which may cause an increase in the loss ratio of the financial and non-life insurance portfolio as a result of moral hazard;
- changes in the legal or regulatory conditions of doing business, i.e. the introduction of new standards by the Polish Financial Supervision Authority and pro-consumer case law of the courts;
- changes on the financial intermediation market, slow-down in the growth of popularity of independent financial advisory services and, therefore, a reduction in the number of channels selling insurance products;
- growing insurance fraud;
- potential upward trend in the rate of unemployment and a slowdown in private consumption may translate into a lack of growth in demand for insurance products;
- price pressure from competitors;
- growing average cost of bodily injury claims resulting, among others, from the growing share of non-public health care establishments and the impact of financial compensation to family members of the deceased (Article 446 § 4

and Article 448 of the Act of 23 April 1964 entitled the Civil Code (Journal of Laws of 2014 Item 121, "Civil Code")), which may result in the need to increase the level of reserves in motor TPL insurance;

- risk that the number and value of claims reported by clients and injured persons will increase in connection with the Act of 17 December 2009 on Pursuing Claims in Group Proceedings (Journal of Laws No. 7 of 2010 Item 44, as amended);
- increasing role of the so-called "insurance claims firms" in the process of handling of claims reported in previous years;
- increased role of insurance brokers which may lead to an increase in acquisition expenses;
- absence of a precise definition of the scope of exemptions pertaining to, for instance, insurance services or medical services in the amended VAT Act of 29 July 2011 (Journal of Laws No. 177 in 2011 Item 1054, as amended; hereinafter: the "VAT Act");
- implementation of the Solvency II Directive in 2016, which may affect the level of capital requirements in the PZU Group and the scope of reporting;
- changes in regulations applicable to banks, which may reduce the number of mortgage loans and insurance for the borrowers.

17.2 Life insurance

The following are the most significant risk factors that may affect the results in the group, individually continued and individual insurance segment (life insurance) in the next quarter of 2016:

- potential upward trend in the rate of unemployment and a slowdown in private consumption, which may translate into a lack of growth in demand for insurance products;
- potential intensification of competition in group insurance resulting from strengthening role of brokers in this segment and the requirement to invite tenders for group insurance by entities subject to the requirements of the Act of 29 January 2004 entitled the Public Procurement Law (Journal of Laws of 2013, Item 907; hereinafter "Public Procurement Law");
- changes in the legal or regulatory conditions of the conduct of business, i.e. amendments to the Insurance Activity Act, the introduction of new recommendations by the Polish Financial Supervision Authority and pro-consumer case law of the courts;
- changes on the financial intermediation market, slow-down in the growth of popularity of independent financial advisory services and, therefore, a reduction in the number of channels selling insurance products;
- changes in the current mortality and morbidity levels;
- behavior of the capital market, which impacts the interest in the unit-linked products offered by PZU;
- lack of a precise definition of the scope of exemptions pertaining to e.g. insurance services or medical services in the amended VAT Act;
- changes in regulations applicable to banks, which may reduce the number of mortgage loans and insurance for the borrowers;
- recommendations and guidelines of the supervisory authorities as regards remuneration of insurance intermediaries;
- increasing role of the so-called "insurance claims firms" in the process of handling of claims reported in previous years;
- implementation of the Solvency II Directive in 2016, which may affect the level of capital requirements in the PZU Group and the scope of reporting;
- changes in the individual insurance market caused by product modifications in line with Council Directive 2004/113/EC and judgment of the European Court of Justice (judgment in case C-236/09 (Test-Achats), of 1 March 2011) that may have significant influence on the value of new business and the technical result.

17.3 Pension funds

The risk factor that could impact the performance of PTE PZU in the subsequent quarters of 2016 is above all the economic climate on the capital market affecting the asset value of funds, the level of management fees charged by PTE PZU and changes in the number of members who may enroll or un-enroll from open-end pension funds from 1 April to 31 July of this year (referred to as the transfer window).

17.4 Investment activity

The following are the most significant risk factors that may affect investment performance:

- volatility of yields on treasury securities depends on the economic situation of Poland and other European Union member states - may lead to fluctuations in the valuation of investments;
- behavior of the capital market, particularly of the Warsaw Stock Exchange – part of the companies' investment activity income depends on the trends in this market. Furthermore, the interest in unit-linked products offered by PZU is positively correlated with trends in the capital markets.

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

In the 3-month period ended 31 March 2016, PZU did not issue, redeem or repay any debt securities or equity securities.

Information on the issue by Alior Bank, a PZU subsidiary, of subordinated bonds is presented in item 7.1.

19. Default or breach of material provisions of loan agreements

During the 3 month period ended 31 March 2016, in PZU and in its subsidiaries there were no instances of default on loans and borrowings or breaches of any material provisions of agreements on loans and borrowings in respect of which no remedial actions were taken until the end of the reporting period.

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

In the 3-month period ended 31 March 2016, neither PZU nor its subsidiaries granted any sureties for a loan or borrowing or guarantees to any single entity or any subsidiary of such an entity where the total amount of outstanding sureties or guarantees would be the equivalent to at least 10% of PZU's equity with the exception of the transaction described below.

On 31 March 2016 PZU extended an Insurance Guarantee to a subsidiary (Alior Bank) for unfunded credit protection on Alior Bank's selected portfolio of credit receivables. Unfunded credit protection limits Alior Bank's credit risk through PZU's obligation to remit a certain amount in the event that a borrower defaults or if other specified credit events transpire.

The value of Alior Bank's portfolio of credit receivables covered by this guarantee was PLN 3,104,240 thousand. After applying Alior Bank's 10% deductible and capping PZU's maximum amount of liability for a single credit receivable to PLN 50,000 thousand, the amount of the guarantee extended by PZU is PLN 2,548,856 thousand. The maximum term of validity of the guarantees is 24 months, while a demand for payment may be served on PZU up until 18 August 2018. Alior Bank is entitled to terminate the guarantee prior to the elapse of its term of validity. The estimated value of PZU's average monthly fee during the guarantee period is PLN 2,428 thousand.

21. Dividends

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

Until the date of publication of this interim report the PZU Management Board has not adopted a resolution regarding the distribution of PZU's net profit for the year ended 31 December 2015 in the amount of PLN 2,248,522 thousand.

22. Disputes

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

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

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

During the 3 months ended 31 March 2016 and by the date of delivery of this periodic report, the PZU Group companies were not involved in any proceedings conducted before a court, an arbitration body or a public administration authority which concerned any liabilities or receivables of PZU or any of its direct or indirect subsidiaries the unit value of which was at least 10% of PZU's equity.

As at 31 March 2016, the value of the subject matter of litigation in all 93,398 cases pending before courts, arbitration bodies or public administration authorities in which PZU Group entities take part, was PLN 4,040,354 thousand. Out of this amount, PLN 3,363,537 thousand relates to liabilities and PLN 676,817 thousand to receivables of PZU Group companies, which represented 26.24% and 5.28%, respectively, of PZU's equity according to PAS.

Estimations of the amounts of the provisions for individual cases take into account all information available on the date of signing the condensed interim consolidated financial statements, however this figure may change in the future.

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

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

The challenged resolution of the Ordinary Shareholder Meeting of PZU distributed the net profit of PLN 3,280,883 thousand generated in 2006 as follows:

- PLN 3,260,883 thousand was transferred to supplementary capital;
- PLN 20,000 thousand was transferred to the Company Social Benefit Fund.

In its judgment of 22 January 2010, the Regional Court in Warsaw repealed the aforementioned resolution adopted by PZU's Ordinary Shareholder Meeting in its entirety. PZU has used all possible appeal measures, including a cassation appeal to the Supreme Court which, on 27 March 2013, dismissed the cassation appeal. The judgment is final and not subject to further appeal.

In PZU' s opinion, the rescission of the resolution will not lead to the occurrence of a claim on the part of PZU shareholders for payment of a dividend.

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

On 20 August 2012, a copy of a statement of claim filed by MSC with the Regional Court in Warsaw was delivered to PZU. In the statement of claim, the Manchester Securities Corporation demands that the resolution on the distribution of profit for the financial year 2006 adopted on 30 May 2012 by the PZU Ordinary Shareholder Meeting be repealed. According to the plaintiff, the value of the litigation is PLN 5,054 thousand. PZU has submitted a rejoinder to the statement of claim requesting to dismiss the statement of claim in its entirety.

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

In the meantime on 16 December 2014, MSC summoned PZU to pay PLN 264,865 thousand as compensation in connection with repealing resolution no. 8/2007 adopted by the PZU Ordinary Shareholder Meeting on 30 June 2007 to distribute PZU's profit for the financial year 2006. PZU refused to effect the performance.

On 23 September 2015, a copy of the statement of claim with enclosures was delivered to PZU in the case launched by MSC against PZU for payment of PLN 169,328 thousand with statutory interest from 2 January 2015 to the date of payment. The statement of claim includes a demand to pay compensation for depriving MSC and J.P. Morgan (MSC acquired the claim from J.P. Morgan) as minority shareholders of PZU of their share in profits for the financial year 2006 in connection with adoption of resolution no. 8/2007 on 30 June 2007 by the PZU Ordinary Shareholder Meeting. The case is pending before the Regional Court in Warsaw, 20th Commercial Division On 18 December 2015, PZU's attorney replied to the statement of claim, requesting to dismiss it in its entirety. On 1 April 2016, MSC filed a pleading in which it referred to the claims, allegations and requests submitted by PZU and presented new evidence in the case. PZU filed for the Regional Court's consent for the submission of a pleading – a reply to MSC's latest pleading.

The Management Board of PZU believes that MSC's claims are groundless. As a result, as at 31 March 2016, no changes have been made to the presentation of PZU's equity that could potentially stem from the repeal of the resolution on distribution of profit for the financial year 2006, adopted by PZU's Ordinary Shareholder Meeting, including the line items "Supplementary capital" and "Retained earnings (losses)", the funds in the Company Social Benefits Fund.

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

In the letters of 17 December 2014, Wspólna Reprezentacja SA summoned PZU to pay the amount of PLN 56,281 thousand and PLN 618 thousand as claims for damages acquired from shareholders resulting from deprivation of the right to participate in PZU's profit. PZU refused to effect the performance.

Apart from the aforementioned letters, shareholders or their legal successors sent to PZU demands for payment based on the facts presented above. Some of them do not indicate specific amounts but the number of shares or only demand a payment. PZU gave its replies in writing, stating that their claims are not existent and that they will not be accepted.

22.1.2. Other court proceedings pertaining to distribution of PZU SA's profit earned in the financial year 2006

On 19 January 2015, the District Court for the capital city of Warsaw delivered a copy of a petition, together with attachments, in the case filed by a company under the name Wspólna Reprezentacja SA, calling for a settlement for the amount of PLN 56,281 thousand. At the hearing on 19 February 2015 PZU refused to conclude a settlement.

On 2 February 2015, the District Court for the capital city of Warsaw delivered a copy of MSC's petition, calling for a settlement for the amount of PLN 264,865 thousand. The claim covered by the petition is identical to the petition in the MSC's demand of 16 December 2014. At the hearing on 24 February 2015 PZU refused to conclude a settlement.

PZU received copies of other calls for a settlement with demands to execute settlements through payment of amounts on account of participation in the profits for the financial year 2006. The proceedings have already been completed. PZU refused to execute the settlements stating that the claims are not existent and that they will not be accepted.

7 lawsuits for payment of dividend or compensation have been launched against PZU. PZU answers such statements of claim, consistently demanding that they be dismissed in their entirety. In six cases, the District Court for Warsaw-Śródmieście dismissed the action in its entirety (in five cases the judgments are final non-appealable). In one case, the District Court discontinued the proceedings after the statement of claim was withdrawn (the decision is final non-appealable).

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

22.2.1. Case concerning reimbursement of the cost of renting a replacement vehicle

On 18 November 2011, the President of the Office of Competition and Consumer Protection issued a decision to impose a fine of PLN 11,287 thousand on PZU for its use of practices infringing on collective consumer interests defined in Article 24 Sec. 1 and 2 of the Competition and Consumer Protection Act (Journal of Laws of 2007, No. 50, Item On 18 November 2011, the President of the Office for Competition and Consumer Protection issued a decision to impose a fine of PLN 11,287 thousand on PZU for its use of the practice infringing on collective consumer interests referred to in Article 24 Sections 1 and 2 of the Act on Competition and Consumer Protection (Journal of Laws No. 50 of 2007 Item 331, as amended) involving a reduction in the scope PZU's liability toward consumers pursuing claims under the insurer's warranty liability arising out of third party liability insurance agreements with vehicle owners by:

- refusing to recognize the inability to use a damaged vehicle as property damage and imposing a condition that in order to receive indemnification for the rental of a replacement vehicle the injured party must demonstrate special circumstances causing the indispensability of renting a replacement vehicle;
- unjustifiably disregarding, in the determination of the amount of the refund, the cost of renting a replacement vehicle during the period in which the repair shop must wait for spare parts;

and ordered the discontinuation of its use.

The PZU Management Board disagrees with both the decision and the legal and factual justification. On 5 December 2011, PZU appealed against this decision (resulting in the prevention of its coming into force).

At the hearing on 2 December 2013 the Regional Court in Warsaw issued a judgment in which it dismissed PZU's appeal and awarded the refund of litigation expenses from PZU to the UOKiK President. On 23 December 2013, PZU submitted an appeal against the judgment. On 17 December 2014, the Appellate Court, at a hearing, issued a decision on suspension of the proceedings until the Supreme Court resolves the legal issue evoking serious doubts in another case pending before the Appellate Court. At the hearing of 9 September 2015, the Supreme Court adopted a position that was beneficial to PZU, stating that in relations with an insurer, in connection with an event covered by mandatory liability insurance of a vehicle holder, an injured party in a traffic accident does not have the status of a consumer. As a result of examination of this legal issue by the Supreme Court, the Appellate Court in Warsaw resumed the suspended proceedings and, at a meeting held on 26 January 2016, closed the hearing. The announcement of the judgment was postponed to 1 February 2016. By judgment of 1 February 2016, the Appellate Court accepted PZU's appeal and changed the judgment issued by the Regional Court in Warsaw in its entirety, repealing the Decision of the President of the Office for Competition and Consumer Protection of 18 November 2011 in its entirety and awarded reimbursement of the costs of proceedings in both instances to PZU by the President of the Office for Competition and Consumer Protection. The Appellate Court's judgment is final non-appealable. On 2 February 2016, PZU filed a petition for the provision of the Appellate Court's judgment with justification. The President of the Office for Competition and Consumer Protection filed an identical petition on 3 February 2016.

In light of the foregoing, in 2015 PZU reversed the related provision of PLN 11,287 thousand.

22.2.2. Case concerning sales of group accident insurance

On 30 December 2011, the President of the Office of Competition and Consumer Protection issued a decision to impose a fine of PLN 56,605 thousand on PZU for its use of a practice restricting competition and violating the prohibition prescribed in Article 6 Section 1 Item 3 of the Act on Competition and Consumer Protection by the execution, by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker"), of an agreement restricting competition in the domestic market for sales of group accident insurance for children, youths and staff of educational institutions consisting of dividing the sales market by entity and transferring PZU's clients from the Kujawsko-Pomorskie voivodship to Maximus Broker for the provision of services in exchange for their recommending PZU as the insurer of choice and at the same time prohibited PZU from the use of this alleged practice.

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

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

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

On 22 October 2012, PZU received a response on its appeal from the President of the Office of Competition and Consumer Protection, to which PZU replied on 5 November 2012. On 27 March 2015, the Court for Competition and Consumer Protection issued a judgment in which it repealed the decision of the President of the Office of Competition and Consumer Protection of 30 December 2011. On 21 May 2015, the President of the Office of Competition and

Consumer Protection filed an appeal. On 24 April 2015, PZU filed a reply to the appeal of the President of the Office of Competition and Consumer Protection.

PZU established a provision for this penalty in the amount of PLN 56,605 thousand as at 31 March 2016, 31 December 2015 and 31 March 2015.

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

On 1 June 2005, the President of the Office of Competition and Consumer Protection launched, at the request of several applicants, an antimonopoly procedure in the matter of a suspicion of PZU Życie's abuse of its dominating position in the group employee insurance market, which could constitute a breach of Article 8 of the Competition and Consumer Protection Act and Article 82 of the Treaty establishing the European Community. As a result of the procedure, on 25 October 2007 the President of the Office of Competition and Consumer Protection imposed a fine on PZU Życie in the amount of PLN 50,384 thousand for hindering clients from taking advantage of the offers of the company's competitors.

The PZU Życie Management Board does not concur with the findings concerning the facts or the legal argumentation set forth in the decision. According to the PZU Życie Management Board, not all the evidence was taken into account when making the decision and an erroneous legal qualification was made and in effect it was groundlessly assumed that PZU Życie has a dominating position on the market. PZU Życie appealed to the Competition and Consumer Protection Court. A total of 38 material law and formal law allegations against the decision of the President of UOKiK were formulated in the appeal.

After several years of proceedings, on 17 February 2011, the Competition and Consumer Protection Court issued a judgment partially changing the appealed decision but at the same time dismissing PZU Życie's appeal against the amount of the imposed penalty. On 6 May 2011, PZU Życie filed an appeal.

In the judgment of 9 May 2013, the Court of Appeals in Warsaw agreed with PZU Życie's allegations and rescinded the judgment of the Court for Competition and Consumer Protection due to the invalidity of court proceedings, abolished the proceedings to the extent affected by the invalidity and remanded the case for reexamination by the Competition and Consumer Protection Court.

As a result further proceedings, on 28 March 2014, Competition and Consumer Protection Court announced its judgment in which it dismissed PZU Życie's appeal and awarded refund of litigation expenses from PZU Życie. On 10 July 2014 PZU Życie filed an appeal against the Competition and Consumer Protection Court's judgment of 28 March 2014, suing it in entirety. The Court sent a copy of the appeal to the defendant and other participants, which submitted a rejoinder to the appeal. The files were sent to the Appellate Court in Warsaw. On 2 July 2015, PZU Życie filed a rebuttal to the replies to the appeal , after which a series of subsequent legal pleadings was exchanged. The appeal session was held on 3 September 2015 and on 17 September 2015, the Appellate Court handed down its verdict, dismissing the PZU Życie's appeal in its entirety and awarding the costs of proceedings from PZU Życie. The verdict is final. PZU Życie paid the fine of PLN 50,384 thousand and the awarded costs. The judgment and justification were delivered to PZU Życie on 20 January 2016. On 18 June 2016, PZU Życie filed a cassation appeal with the Supreme Court against the judgment. On 10 May 2016 PZU Życie received the response from the Office for Competition and Consumer Protection to PZU Życie's cassation appeal of 18 marca 2016

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

On 9 April 2010, the Court of Arbitration served PZU Życie with a statement of claim filed by CSC Computer Sciences Polska Sp. z o.o. ("CSC") against PZU Życie to pay a total of EUR 8,437 thousand in connection with the implementation of the GraphTalk system in PZU Życie. Following the subsequent amendments to the statement of claim, CSC pursued payment of a total amount of PLN 35,663 thousand with interest accrued from the date of filing the statement of claim (i.e. from 31 March 2010) to the date of payment. The amounted claimed comprised a claim regarding, among other things, license fees, implementation work, service and maintenance services, contractual penalties and capitalized interest.

On 31 May 2010, PZU Życie petitioned the Court of Arbitration to assert its temporary lack of jurisdiction to examine some of the claims and dismiss the statement of claim in its entirety. PZU Życie also filed a counterclaim against CSC, demanding payment of PLN 71,890 thousand as a refund of the collected remuneration or as compensation for the improper performance of obligations. On 31 August 2010, CSC petitioned the Court of Arbitration to dismiss PZU Życie's claim in its entirety, indicating the absence of grounds to accept the claim.

After the proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, on 18 December 2012, the court issued a judgment ("Court of Arbitration Judgment 108/10"), awarding the amount of PLN 17,193 thousand from PZU Życie to CSC and discontinued the proceedings in respect of the main action pertaining to the request for payment of EUR 8,437 thousand plus statutory interest on this amount from the date of filing the statement of claim. Furthermore, the Court of Arbitration dismissed the main action pertaining to its remaining part and dismissed PZU Życie's counterclaim.

In connection with the final conclusion of the proceedings to declare enforceability of Judgment 108/10, on 9 July 2015, PZU Życie paid to CSC the amount of PLN 17,392 thousand as specified in the judgment. On 20 August 2015, PZU Życie filed a cassation appeal with the Supreme Court challenging Judgment 108/10 of the Court of Arbitration in its entirety. CSC filed a response to cassation appeal. By the date of this periodic report, no other significant events have occurred.

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

PZU is a creditor of PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"), both companies with their registered office in Wysogotowo near Poznań, by virtue of issued and executed insurance guarantees (contractual guarantees).

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

PBG and Hydrobudowa belong to the same capital group in which PBG is the parent company. The two companies provided sureties for each other's liabilities. As a consequence, all claims submitted the bankruptcy estate of Hydrobudowa in the amount of PLN 100,996 thousand were concurrently submitted to the bankruptcy estate of PBG.

PZU's claims to PBG's bankruptcy estate, after being reviewed by a court commissioner and after being verified by a court supervisor, have been entered in the list of claims in the amount of PLN 103,014 thousand. As at 31 March 2016, 31 December 2015 and 31 March 2015, the amount of the claims was PLN 102,164 thousand, and its reduction resulted from the elapse of the term of some of the guarantees under which no claims were made. Due to the low likelihood of recovery of the claimed amount, this receivable is not recognized in the consolidated statement of financial position. At the creditor meeting held on 5 August 2015, PZU voted for accepting the composition and on 25 August 2015, the commissioner judge confirmed the outcome of the vote and that the composition had been concluded. On 8 October 2015, the Bankruptcy Court announced a decision in which it approved the composition with creditors. The decision has not become effective yet. If and when the decision to approve the composition becomes effective, PZU will receive cash payments in the amount of 21% of the claims, following the time schedule included in the Composition Proposals and non-cash satisfaction involving the conversion of 0.491927% of the claim to new issue shares

23. Other information

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

Issuer rating

PZU and PZU Życie are regularly rated by Standard & Poor's Ratings Services (S&P). The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as the country's financial situation. It also includes outlook, which is an assessment of the future position of the Company in the event of specific circumstances.

(in thousands of PLN)

On 27 April 2015, S&P confirmed the financial strength rating of PZU and PZU Życie at the level of "A" and upheld a stable rating outlook for both companies.

On 18 December 2015, S&P placed PZU's rating on CreditWatch Negative following the resignation of PZU's President of the Management Board, the uncertainty as to the Company's future strategy and the ability to pass a stress test of hypothetical bankruptcy of the issuer's country in connection with PZU's investment in the consolidation of banking assets in Poland.

On 21 January 2016, S&P downgraded the rating of PZU and PZU Życie's financial strength by one step to the level of "A-" with a negative rating outlook for both companies. The decision on the downgrade was a consequence of S&P's decision to lower the rating of Poland. The decision did not result from any changes in PZU's financial standing.

Country rating

On 15 January 2016, S&P downgraded the rating of Poland from A- to BBB + for long-term liabilities in foreign currencies and from A/A-1 to A-/A-2 for long- and short-term liabilities, respectively, in the local currency. At the same time, the rating outlook was changed from positive to negative. In the justification of its decision, the agency stated that, according to its analysts, the legislative initiatives undertaken in Poland by the new government will weaken the independence and effectiveness of Poland's key institutions. The change of the rating outlook from positive to negative reflects S&P's opinion that a further downgrade of the rating of Poland in the next 24 months is likely if the credibility of the country's monetary policy is threatened or if the public finance deficit increases above the expectations of the agency's analysts.

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

Company name	Rating and outlook	Date of award/update	Previous rating and outlook	Date of award/update
PZU				
Financial strength rating	A- /negative/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /negative/	21 January 2016	A /stable/	27 April 2015
PZU Życie				
Financial strength rating	A- /negative/	21 January 2016	A /stable/	27 April 2015
Credit rating	A- /negative/	21 January 2016	A /stable/	27 April 2015

23.2 Related party transactions

23.2.1. Execution, by PZU or its subsidiaries, of material transactions with related entities on terms other than based on an arm's length principle

In the period of 3 months ended 31 March 2016, neither PZU nor its subsidiaries executed any single or multiple transactions with their related parties which were of material significance individually or collectively and were executed on terms other than based on an arm's length principle, except for those described below.

(in thousands of PLN)

23.2.2. Revenues and balances of transactions executed with related entities

Balances and revenues resulting from commercial transactions between the PZU Group and related parties	1 January – 31 March 2016 and as at 31 March 2016		1 January – 31 December 2015 and as at 31 December 2015		1 January – 31 March 2015 and as at 31 March 2015	
	Key management staff of the main entities 1)	Other related parties 2)	Key management staff of the main entities 1)	Other related parties 2)	Key management staff of the main entities 1)	Other related entities 2)
Gross written premium						
in non-life insurance	-	755	-	3,188	-	813
in life insurance (including the volumes from investment contracts)	-	-	-	-	-	-
Other income	-	1	-	3	-	-
Costs	-	-	-	11	-	11
including charges for receivables made in the current period	-	-	-	-	-	-
Receivables	-	40	-	50	-	25
gross value	-	40	-	50	-	25
revaluation charges	-	-	-	-	-	-
net value	-	40	-	50	-	25
Liabilities	-	4	-	4	-	6
Contingent assets	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	-	-

1) Senior level managers, data according to declarations.
2) Unconsolidated companies in liquidation and associates and joint ventures accounted for using the equity method.

(in thousands of PLN)

23.2.3. Presentation of transactions with State Treasury's related parties

Taking into account the provisions of the PZU Articles of Association (in particular those pertaining to the restriction of voting rights of shareholders other than the State Treasury and the rules for appointing the PZU Supervisory Board), for the purposes of presenting the turnovers and balances of transactions executed with related entities it is assumed that the State Treasury retained control over PZU within the meaning of IAS 10, and, as a consequence, PZU is still a subsidiary of the State Treasury.

Transactions with subsidiaries, co-subsidiaries and associates of the State Treasury were predominantly non-life insurance agreements, life insurance agreements and unit-linked contracts. Such transactions are concluded and settled on terms and conditions available to customers, who are not related parties. Receivables from related parties and liabilities to related parties under insurance contracts are short-term only.

The PZU Group applies the exemption from the requirement to disclose transactions with parties related by virtue of remaining under control, shared control or significant influence of the same government referred to in item 25 of IAS 24, however due to the usefulness of such information, it decided to disclose the value of the written premium and volumes from the investment contracts following from the transactions with subsidiaries, co-subsidiaries and associates of the State Treasury, understood only as commercial law companies and state-owned enterprises which are subsidiaries, co-subsidiaries and associates of the State Treasury, whose lists are published on State Treasury Ministry's websites.

The table below presents written premium and volumes from investment contracts resulting from transactions with subsidiaries, co-subsidiaries and associates of the State Treasury.

Subsidiaries, co-subsidiaries and associates of the State Treasury	1 January – 31 March 2016	1 January – 31 March 2015
Gross written premium in non-life insurance	5,499	5,676
- including gross written premium in transactions with Bank Powszechna Kasa Oszczędności BP SA	2,964	1,652
Gross written premium in life insurance	5,868	7,041
- including gross written premium and investment contract volumes in transactions with Bank Powszechna Kasa Oszczędności BP SA	5,868	7,041
Total	**11,367**	**12,717**

23.3 Acquisition of Bank BPH

On 31 March 2016, Alior Bank (a subsidiary of PZU) signed an agreement with GE Investment Poland sp. z o.o. (GEIP), DRB Holdings B.V. and Selective American Financial Enterprises, LLC (collectively, the "Bank BPH Sellers") for the purchase of a stake and a spin-off concerning the purchase of the Bank's Core Business ("Share Purchase and Spin-Off Agreement").

The subject matter of the Share Purchase and Spin-Off Agreement covers:

- acquisition by Alior Bank from the Bank BPH Sellers a stake representing a significant shareholding in Bank BPH SA ("Bank BPH");
- spin-off of Bank BPH in accordance with Article 529 § 1 Item 4 of the Commercial Companies Code performed by transferring Bank BPH's Core Business to Alior Bank ("Spin-off") and the issuance of new shares by Alior Bank to the shareholders of Bank BPH indicated in the spin-off plan (i.e. with the exception of Alior Bank and the Bank BPH Sellers and its related parties).

Alior Bank will acquire the core business of Bank BPH ("Bank BPH's Core Business") in the form of an organized part of an enterprise comprising all assets and liabilities of Bank BPH except for assets and liabilities which will remain in Bank BPH after the spin-off, constituting Bank BPH's mortgage loan business.

The acquisition of a stake in Bank BPH by Alior Bank will be effected through a tender offer for the sale of all outstanding shares in Bank BPH or shares representing 66% of Bank BPH's share capital ("Tender Offer"). Alior Bank is required to announce the Tender Offer upon fulfillment of the conditions stipulated in the Share Purchase and Spin-Off

Agreement. However, Alior Bank also has the right to announce the Tender Offer before the fulfillment of those conditions. The exact number of shares to be sold to Alior Bank by the Bank BPH Sellers will be determined by dividing the amount of payment due the Bank BPH Sellers for their stake in Bank BPH's Core Business by the share price in the Tender Offer.

The price for a 87.23% stake in Bank BPH's Core Business held by the Sellers of Bank BPH is PLN 1,225 million (BPH's entire Core Business is valued at PLN 1,532 thousand), subject to adjustments. The final price payable to the Bank BPH Sellers will be adjusted depending on the adjusted book value of net tangible assets of the Bank's Core Business.

The transaction will be funded through a public issue of new shares by Alior Bank to its current shareholders while observing their subscription rights.

The completion of the Transaction will be contingent on the fulfillment of the following conditions precedent:

- obtaining consent from the competent antimonopoly authority;
- obtaining pertinent consents or decisions from KNF by Bank BPH, Alior Bank and GEIP;
- approval and signing of the spin-off plan by Bank BPH and Alior Bank;
- adoption of a resolution by the Shareholder Meeting of Alior Bank on an increase in share capital by the issue of new shares;
- registration of the increase in Alior Bank's share capital by the court of registration;
- adoption of a resolution by the Shareholder Meeting of Alior Bank approving the Spin-Off;
- obtain certain tax interpretations related to the Spin-Off.

Pursuant to the Share Purchase and Spin-Off Agreement, the conditions must be fulfilled by 1 May 2016 (approval and signing of the spin-off plan), 1 June 2016 (adoption of a resolution on an increase in Alior Bank's share capital) and 1 November 2016 (for all other conditions).

Alior Bank and the Bank BPH Sellers agreed that the exchange parity of shares in Bank BPH for shares in Alior Bank issued under the Spin-Off ("Spin-Off Shares", "Parity") will be in the range of 0.46-0.35 Spin-Off Shares for each share in Bank BPH. The Parity will be set taking into account both bank's market prices and fundamental valuations. Bank BPH shareholders (other than Alior Bank and the Sellers of BPH and the related parties of the Sellers of Bank BPH) will receive demerger shares in the possession of Bank BPH on the date specified in the demerger plan.

Declaration of support issued by PZU

On 31 March 2016, PZU issued a declaration of support ("Declaration of Support") to the Bank BPH Sellers under which PZU undertook the following, without limitation, subject to any regulatory requirements or requests from KNF:

- vote from all shares in Alior Bank held directly by PZU as at the date of the Declaration of Support (i.e. 25.19% of Alior Bank's share capital) or as at the date of the Shareholder Meeting of Alior Bank convened in connection with the Transaction (whichever of these values is higher) in favor of the adoption, by the said Shareholder Meeting of Alior Bank, of resolutions on an increase in the share capital and approval of the Spin-Off;
- subscribe and pay for the newly issued shares in Alior Bank pro rata to PZU's current share in Alior Bank's share capital, provided that PZU is not in any way required to subscribe for and acquire any shares which, together with the stake held currently by PZU in Alior Bank (including its related parties whose shareholdings in Alior Bank are allocated to PZU in accordance with the relevant regulations concerning major shareholdings in public companies), would represent more than 33% of the total number of shares or votes in Alior Bank; and
- make every effort to obtain, within the deadline set in the Share Purchase and Spin-Off Agreement, all regulatory approvals (if necessary) required from PZU for the purposes of the closing of the Transaction by Alior Bank.

Moreover, PZU undertook, in the period following the date of the Declaration of Support, to refrain, without the consent of the Bank BPH Sellers, from selling, assigning or otherwise disposing of the shares in Alior Bank held directly by PZU as at the date of the Declaration of Support.

23.3.1. Audits of the Office of the Polish Financial Supervision Authority in PZU

In the period from 17 April to 17 June 2015, the Office of the Polish Financial Supervision Authority (UKNF) carried out an audit in PZU in respect to the use of services rendered by insurance agents.

On 12 January 2016, PZU received the audit report to which it submitted its reservations on 27 January. In the opinion of the PZU Management Board, the results of the audit will not affect the consolidated financial statements.

On 14 April 2016, an audit was commenced of the business and financial standing in the area of claims handling. The audit is expected to end on 19 May 2016.

23.3.2. Situation in Ukraine

Despite the unstable political and economic situation of Ukraine, PZU Ukraine and PZU Ukraine Life Insurance, thanks to diversification of their portfolios and sales channels, are more flexible in responding to market changes and are implementing their sales plans set for 2016.

The PZU Management Board in cooperation with the management boards of PZU Ukraine and PZU Ukraine Life Insurance conducts constant monitoring of external risks and changes in Ukrainian legal regulations. Response scenarios have been prepared for market changes and control mechanisms. PZU does not intend to withdraw from the Ukrainian market. As at the date of this periodic report, the PZU Management Board assumes that the business of PZU Ukraine and PZU Ukraine Life Insurance will be continued in accordance with the assumptions, however the economic instability in Ukraine may in the future have a negative impact on the financial standing and financial performance of PZU Ukraine and PZU Ukraine Life Insurance in a way which cannot be currently predicted in a reliable manner. These condensed interim consolidated financial statements reflect the PZU Management Board's current assessment in this respect.

(in thousands of PLN)

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

1. Interim balance sheet

ASSETS	31 March 2016	31 December 2015	31 March 2015
I. Intangible assets, including:	358,163	362,167	282,508
- goodwill	-	-	-
II. Investments	32,286,248	32,356,048	31,655,868
1. Real property	471,154	475,812	488,912
2. Investments in subordinated entities, of which:	8,351,746	8,040,778	6,777,393
- investments in subordinated entities measured by the equity method	8,351,746	7,463,908	6,777,393
3. Other financial investments	23,463,348	23,839,458	24,389,563
4. Deposit receivables from ceding companies	-	-	-
III. Net assets of a life insurance company if the investment risk is borne by the policyholder	-	-	-
IV. Receivables	2,079,447	1,801,903	1,876,913
1. Receivables on direct insurance	1,519,420	1,433,828	1,425,977
1.1. From subordinated entities	58,367	2,419	16
1.2. From other entities	1,461,053	1,431,409	1,425,961
2. Receivables on reinsurance	70,997	40,929	44,168
1.1. From subordinated entities	13,219	2,452	11,967
1.2. From other entities	57,778	38,477	32,201
3. Other receivables	489,030	327,146	406,768
1.1. Receivables from the state budget	115,767	63,641	1,789
1.2. Other receivables	373,263	263,505	404,979
a) from subordinated entities	9,373	37,127	41,082
b) from other entities	363,890	226,378	363,897
V. Other assets	609,333	195,984	165,704
1. Tangible asset components	128,090	130,908	114,854
2. Cash	481,243	65,076	50,850
3. Other asset components	-	-	-
VI. Prepayments and accruals	1,856,795	1,642,259	771,893
1. Deferred income tax assets	-	-	-
2. Capitalized acquisition costs	1,068,856	957,179	631,940
3. Posted interest and rents	-	-	-
4. Other accruals	787,939	685,080	139,953
Total assets	**37,189,986**	**36,358,361**	**34,752,886**

(in thousands of PLN)

Interim balance sheet (continued)

LIABILITIES AND EQUITY	31 March 2016	31 December 2015	31 March 2015
I. Equity	12,817,127	12,378,733	13,203,846
1. Share capital	86,352	86,352	86,352
2. Unpaid share capital (negative figure)	-	-	-
3. Treasury stock (negative figure)	-	-	-
4. Supplementary capital	4,446,438	4,446,348	4,408,574
5. Revaluation reserve	5,998,954	5,597,511	5,840,185
6. Other reserve capital	-	-	-
7. Retained earnings (losses)	2,248,522	-	2,636,733
8. Net profit (loss)	36,861	2,248,522	232,002
9. Charges to net profit during the financial year (negative figure)	-	-	-
II. Subordinated debt	-	-	-
III. Technical provisions	19,109,068	18,673,869	17,800,105
IV. Reinsurers' share in technical provisions (negative figure)	(990,393)	(1,037,301)	(715,276)
V. Estimated salvage and subrogation (negative figure)	(90,985)	(96,075)	(107,764)
1. Gross estimated recoveries and recourses	(91,441)	(96,539)	(109,538)
2. Reinsurer's share in estimated recoveries and recourses	456	464	1,774
VI. Other provisions	582,230	472,916	349,794
1. Provisions for pension benefits and other compulsory employee benefits	60,683	50,287	77,307
2. Deferred tax provision	436,378	349,003	151,016
3. Other provisions	85,169	73,626	121,471
VII. Liabilities for reinsurers' deposits	-	-	-
VIII. Other liabilities and special-purpose funds	4,996,151	5,109,816	3,704,565
1. Liabilities on direct insurance	373,218	344,541	324,930
1.1. To subordinated entities	729	912	421
1.2. To other entities	372,489	343,629	324,509
2. Reinsurance liabilities	142,297	81,038	97,396
2.1. To subordinated entities	3,349	1,883	1,074
2.2. To other entities	138,948	79,155	96,322
3. Liabilities on the issue of own debt securities and borrowings taken out	3,632,467	3,611,636	2,048,808
4. Liabilities to credit institutions	2	-	342,199
5. Other liabilities	686,159	928,469	769,699
5.1. Liabilities to the budget	22,270	50,783	33,472
5.2. Other liabilities	663,889	877,686	736,227
a) to subordinated entities	72,375	46,427	10,641
b) to other entities	591,514	831,259	725,586
6. Special purpose funds	162,008	144,132	121,533
IX. Prepayments and accruals	766,788	856,403	517,616
1. Accrued expenses	733,705	821,516	489,956
2. Negative goodwill	-	-	-
3. Deferred income	33,083	34,887	27,660
Total liabilities and equity	**37,189,986**	**36,358,361**	**34,752,886**

(in thousands of PLN)

Interim balance sheet (continued)

	31 March 2016	31 December 2015	31 March 2015
Book value	12,817,127	12,378,733	13,203,846
Number of shares	863,523,000	863,523,000	863,523,000 [1)]
Book value per share (in PLN)	14.84	14.34	15.29 [1)]
Diluted number of shares	863,523,000	863,523,000	863,523,000 [1)]
Diluted book value per share (PLN)	14.84	14.34	15.29 [1)]

[1)] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

2. Interim statement of off-balance sheet line items

Off-balance sheet items	31 March 2016	31 December 2015	31 March 2015
1. Conditional receivables, including:	21,088,205	20,067,497	10,156,338
1.1. Guarantees and sureties received	17,897	12 408	12,591
1.2. Other [1)]	21,070,308	20,055,089	10,143,747
2. Contingent liabilities, including:	4,608,979	4,642,447	2,346,877
2.1. Guarantees and sureties given	3,670,697	3,651,485	2,070,627
2.2. Accepted and endorsed bills of exchange		-	-
2.3. Assets subject to the obligation of resale		-	-
2.4. Other liabilities secured on assets or income		-	-
2.5. Disputed claims not accepted by the insurance company and pursued by debtors by litigation	505,374	575,148	276,004
2.6. Other	432,908	415,814	246
3. Reinsurance collateral instituted in favor of the insurance company		-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies		-	-
5. Third party asset components not captured in the assets	133,120	136,477	118,036
6. Other off-balance sheet line items		-	-

[1)] This item includes collateral received in the form of a transfer of ownership of the debtor's assets, mortgage on the debtor's assets, bills of exchange issued on account of granted bank guarantees, other bills of exchange, other contingent receivables, etc. In order to better presentation of the economic content the data was adjusted to comparable data for the year 2015.

3. Interim technical non-life insurance account

Technical non-life insurance account	1 January – 31 March 2016	1 January – 31 March 2015
I. Premium income (1-2-3+4)	2,025,321	1,917,071
1. Gross written premium	2,714,054	2,229,893
2. Reinsurers' share in the gross written premium	22,027	50,821
3. Change in the provision for unearned premiums and for unexpired risks	614,213	255,031
4. Reinsurers' share in the movement in the provision for unearned premiums	(52,493)	(6,970)
II. Net investment income after considering costs, transferred from the non-technical profit and loss account	56,740	61,060
III. Other net technical income	29,583	50,041
IV. Claims (1+2)	1,343,110	1,025,174
1. Net claims paid	1,522,491	1,171,710

(in thousands of PLN)

1.1. Gross claims paid	1,554,039	1,185,828
1.2. Reinsurers' share in claims paid	31,548	14,118
2. Change in the net provision for outstanding claims	(179,381)	(146,536)
2.1. Change in the gross provision for outstanding claims	(173,788)	(108,314)
2.2. Reinsurers' share in the change in the provision for outstanding claims	5,593	38,222
V. Movement in other net technical provisions	-	-
1. Change in other gross technical provisions	-	-
2. Reinsurers' share in the change in other technical provisions	-	-
VI. Net bonuses and discounts with the change in provisions	(46)	1,466
VII. Insurance activity expenses	573,682	541,159
1. Acquisition expenses, including:	417,104	360,032
- change in capitalized acquisition expenses	(111,677)	(63,438)
2. Administrative expenses	163,908	185,390
3. Reinsurance commissions and sharing in the reinsurers' profits	7,330	4,263
VIII. Other net technical income	104,659	104,697
IX. Change in loss ratio (risk) equalization provisions	-	-
X. Technical result of non-life insurance	**90,239**	**355,676**

(in thousands of PLN)

4. Interim non-technical profit and loss account

Non-technical profit and loss account	1 January – 31 March 2016	1 January – 31 March 2015
I. Technical result of non-life insurance or life insurance	90,239	355,676
II. Investment income	253,132	146,995
1. Investment income on real estate	1,189	1,494
2. Investment income from subordinated entities	1,068	(792)
2.1. on ownership interests or shares	-	-
2.2. on borrowings and debt securities	1,068	(792)
2.3. on other investments	-	-
3. Other financial investment income	50,100	49,444
3.1. on ownership interests, shares, other variable income securities, units and investment certificates in mutual funds	3,079	3,145
3.2. on debt securities and other fixed income securities	57,244	59,866
3.3. on term deposits in credit institutions	(20,529)	(20,399)
3.4. on other investments	10,306	6,832
4. Gain on investment revaluation	54	426
5. Gain on the realization of investments	200,721	96,423
III. Unrealized investment gains	214,216	99,416
IV. Net investment income after including costs transferred from the technical life insurance account	-	-
V. Investment activity expenses	138,838	99,970
1. Real estate maintenance expenses	1,646	2,902
2. Other investment activity expenses	3,369	3,449
3. Loss on investment revaluation	7	207
4. Loss on investment realization	133,816	93,412
VI. Unrealized investment losses	217,512	109,593
VII. Net investment income after including costs transferred to the technical non-life insurance account	56,740	61,060
VIII. Other operating income	79,727	180,426
IX. Other operating expenses	149,635	82,701
X. Operating profit (loss)	74,589	429,189
XI. Extraordinary gains	-	-
XII. Extraordinary losses	-	-
XIII. Gross profit (loss)	74,589	429,189
XIV. Income tax	30,134	80,746
a) current part	(37,586)	91,825
b) deferred part	67,720	(11,079)
XV. Other compulsory reductions in profit (increase in losses)	-	-
XVI. Share of the net profit (loss) of subordinated entities measured by the equity method	(7,594)	(116,441)
XVII. Net profit (loss)	**36,861**	**232,002**

	1 January – 31 March 2016	1 January – 31 March 2015
Net profit (loss) (annualized)	148,254	940,897
Weighted average number of common shares	863,523,000	863,523,000 [1)]
Profit (loss) per common share (PLN)	0.17	1.09 [1)]
Weighted average diluted number of common shares	863,523,000	863,523,000 [1)]
Diluted earnings (losses) per common share (PLN) (PLN)	0.17	1.09 [1)]

[1)] Comparable data were restated taking into account the new number of shares after the split of PZU shares.

(in thousands of PLN)

5. Interim statement of changes in equity

Statement of changes in equity	1 January – 31 March 2016	1 January – 31 December 2015	1 January – 31 March 2015
I. Equity at the beginning of the period (Opening Balance)	12,378,733	12,328,724	12,328,724
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
I.a. Equity at the beginning of the period (Opening Balance), after reconciliation with comparable data	12,378,733	12,328,724	12,328,724
1. Share capital at the beginning of the period	86,352	86,352	86,352
1.1. Change in share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
1.2. Share capital at the end of the period	86,352	86,352	86,352
2. Contributions due to the share capital at the beginning of the period	-	-	-
2.1. Changes in the contributions due to share capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
2.2. Contributions due to share capital at the end of the period	-	-	-
3. Treasury stock at the beginning of the period	-	-	-
3.1. Changes in treasury stock	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
3.2. Treasury stock at the end of the period	-	-	-
4. Supplementary capital at the beginning of the period	4,446,348	4,408,306	4,408,306
4.1. Change in supplementary capital	90	38,042	268
a) increases (by virtue of):	90	38,042	268
- distribution of profit (above the statutorily required amount)	-	36,164	-
- from revaluation reserve – by sale and liquidation of fixed assets	90	1,878	268
b) decreases	-	-	-
4.2. Supplementary capital at the end of the period	4,446,438	4,446,348	4,408,574

(in thousands of PLN)

Interim statement of changes in equity (continued)

Statement of changes in equity	1 January – 31 March 2016	1 January – 31 December 2015	1 January – 31 March 2015
5. Revaluation reserve at the beginning of the period	5,597,511	5,197,333	5,197,333
- changes in the accepted accounting principles (policy)	-	-	-
5.1. Change in the revaluation reserve	401,443	400,178	642,852
a) increases (by virtue of):	457,423	673,567	713,986
- valuation of financial investments	457,423	664,996	713,986
- transfer of the impairment charges on investments available for sale	-	8,571	-
- other increases, including reversal of real estate impairment charges	-	-	-
b) decreases (by virtue of)	55,980	273,389	71,134
- valuation of financial investments	55,890	271,511	70,866
- sale of fixed assets	90	1,878	268
- other	-	-	-
5.2. Revaluation reserve at the end of the period	5,998,954	5,597,511	5,840,185
6. Other reserve capital at the beginning of the period	-	-	-
6.1. Change in other reserve capital	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
6.2. Other reserve capital at the end of the period	-	-	-
7. Retained earnings (losses) at the beginning of the period	2,248,522	2,636,733	2,636,733
7.1. Retained earnings at the beginning of the period	2,248,522	2,636,733	2,636,733
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.2. Retained earnings at the beginning of the period, after reconciliation with comparable data	2,248,522	2,636,733	2,636,733
a) increases	-	-	-
b) decreases	-	2,636,733	-
- transfers to supplementary capital	-	36,164	-
- disbursement of dividends	-	2,590,569	-
- transfers/charges to the Company Social Benefit Fund	-	10,000	-
7.3. Retained earnings at the end of the period	2,248,522	-	2,636,733
7.4. Retained losses at the beginning of the period	-	-	-
a) changes in the accepted accounting policies	-	-	-
b) corrections of errors	-	-	-
7.5. Retained losses at the beginning of the period, after reconciliation with comparable data	-	-	-
a) increases	-	-	-
b) decreases	-	-	-
7.6. Retained losses at the end of the period	-	-	-
7.7. Retained earnings (losses) at the end of the period	2,248,522	-	2,636,733
8. Net result	36,861	2,248,522	232,002
a) net profit	36,861	2,248,522	232,002
b) net loss	-	-	-
c) Charges to profit	-	-	-
II. Equity at the end of the period (Closing Balance)	**12,817,127**	**12,378,733**	**13,203,846**

(in thousands of PLN)

6. Interim cash flow statement

Cash flow statement	**1 January – 31 March 2016**	**1 January – 31 December 2015**	**1 January – 31 March 2015**
A. Cash flow on operating activity			
I. Proceeds	2,833,899	9,571,857	2,595,320
1. Proceeds on direct activity and inward reinsurance	2,609,952	8,613,380	2,263,840
1.1. Proceeds on gross premiums	2,563,073	8,459,119	2,233,930
1.2. Proceeds on recoveries, recourses and claim refunds	35,303	119,939	22,307
1.3. Other proceeds on direct activity	11,576	34,322	7,603
2. Proceeds on outward reinsurance	41,153	87,338	21,469
2.1. Payments received from reinsurers for their share of claims paid	36,789	65,993	18,206
2.2. Proceeds on reinsurance commissions and profit-sharing	4,333	21,327	3,245
2.3. Other proceeds from outward reinsurance	31	18	18
3. Proceeds on other operating activity	182,794	871,139	310,011
3.1. Proceeds for acting as an emergency adjuster	76,975	194,355	60,094
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	669	3,453	3,031
3.3. Other proceeds	105,150	673,331	246,886
II. Expenditures	2,618,898	9,192,097	2,324,952
1. Expenditures on direct activity and inward reinsurance	2,188,926	7,530,796	1,779,472
1.1. Returns of gross premiums	38,162	156,921	37,365
1.2. Gross claims paid	1,338,352	4,405,539	999,594
1.3. Acquisition expenditures	343,616	1,185,199	301,518
1.4. Administrative expenditures	336,359	1,424,266	352,639
1.5. Expenditures for claims handling and pursuit of recoveries	62,772	206,305	53,195
1.6. Commissions paid and profit-sharing on inward reinsurance	38,390	34,776	7,911
1.7. Other expenditures on direct activity and inward reinsurance	31,275	117,790	27,250
2. Expenditures on outward reinsurance	82,039	264,798	71,184
2.1. Premiums paid for reinsurance	81,955	264,325	71,078
2.2. Other expenditures on outward reinsurance	84	473	106
3. Expenditures on other operating activity	347,933	1,396,503	474,296
3.1. Expenditures for acting as an emergency adjuster	143,250	484,799	135,037
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	35,227	170,395	36,349
3.3. Other operating expenditures	169,456	741,309	302,910
III. Net cash flow on operating activity (I-II)	**215,001**	**379,760**	**270,368**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2016	1 January – 31 December 2015	1 January – 31 March 2015
B. Cash flow on investing activity			
I. Proceeds	52,888,789	168,572,509	58,172,561
1. Sale of real estate	3,499	34,766	5,457
2. Sale of ownership interests and shares in subordinate entities	180	281,073	-
3. Sale of ownership interests and shares in other entities and units and investment certificates in mutual funds	4,360	12,976	-
4. Realization of debt securities issued by subordinated entities and amortization of the loans granted to these entities	-	37,448	-
5. Realization of debt securities issued by other entities	2,749,985	8,001,193	2,177,685
6. Liquidation of term deposits in credit institutions	39,277,609	95,747,370	31,543,509
7. Realization of other investments	10,845,055	61,969,168	23,696,774
8. Proceeds from real estate	2,168	7,955	1,587
9. Interest received	1,858	22,003	5,078
10. Dividends received	-	2,434,351	730,040
11. Other investment proceeds	4,075	24,206	12,431
II. Expenditures	52,678,804	166,313,000	57,308,622
1. Purchase of real estate	-	-	-
2. Purchase of ownership interests and shares in subordinated entities	341,760	1,414,544	-
3. Purchase of ownership interests and shares in other entities, units and investment certificates in mutual funds	1,538	75,540	540
4. Purchase of debt securities issued by subordinated entities and extension of loans to these entities	-	130,000	90,000
5. Purchase of debt securities issued by other entities	1,946,831	7,418,486	2,566,603
6. Purchase of term deposits in credit institutions	39,587,083	95,783,100	30,856,376
7. Purchase of other investments	10,785,357	61,430,307	23,772,908
8. Expenditures to maintain real estate	15,959	56,377	18,327
9. Other expenditures for investments	276	4,646	3,868
III. Net cash flow on investing activity (I-II)	**209,985**	**2,259,509**	**863,939**

(in thousands of PLN)

Interim cash flow statement (continued)

Cash flow statement	1 January – 31 March 2016	1 January – 31 December 2015	1 January – 31 March 2015
C. Cash flow on financing activity			
I. Proceeds	275,210	13,604,842	4,785,030
1. Net proceeds from issuing shares and additional capital contributions	-	-	-
2. Loans, borrowings and issues of debt securities	275,210	13,604,842	4,785,030
3. Other financial proceeds	-	-	-
II. Expenditures	275,225	16,231,980	5,913,112
1. Dividends	-	4,058,605	1,468,023
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-	-
3. Purchase of treasury stock	-	-	-
4. Amortization of loans and borrowings and redemption of own debt securities	275,225	12,144,251	4,445,086
5. Interest on loans and borrowings and issued debt securities	-	29,124	3
6. Other financial expenditures	-	-	-
III. Net cash flow on financing activity (I-II)	**(15)**	**(2,627,138)**	**(1,128,082)**
D. Total net cash flow (A.III+/-B.III+/-C.III)	**424,971**	**12,131**	**6,225**
E. Balance sheet change in cash, including:	416,167	18,075	3,849
- change in cash due to exchange differences	(8,804)	5,944	(2,376)
F. Cash at the beginning of the period	65,076	47,001	47,001
G. Cash at the end of the period (F+/-E), including:	481,243	65,076	50,850
- restricted cash	80,317	60,646	48,939

7. Introduction

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

8. Key accounting principles (accounting policy)

Detailed accounting principles (policy) are presented in the standalone financial statements of PZU for 2015.

9. Changes in accounting policies

In the 3-month period ended 31 March 2016, no changes were made to the accounting principles (policy).

Signatures of the PZU Management Board Members:

First and last name	Position / Function	
Michał Krupiński	CEO of PZU SA	.... (signature)
Roger Hodgkiss	Member of the PZU Management Board	.... (signature)
Sebastian Klimek	Member of the PZU Management Board	.... (signature)
Beata Kozłowska-Chyła	Member of the PZU Management Board	.... (signature)
Dariusz Krzewina	Member of the PZU Management Board	.... (signature)
Robert Pietryszyn	Member of the PZU Management Board	.... (signature)
Maciej Rapkiewicz	Member of the PZU Management Board	.... (signature)

Person responsible for drawing up the condensed interim consolidated financial statements:

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

Warsaw, 12 May 2016