



PZU FINANCE AB (PUBL)

(incorporated in Sweden with limited liability)

EUR 350,000,000 1.375 per cent. Guaranteed Notes due July 2019

(to be consolidated and form a single series with the Issuer's EUR 500,000,000 1.375 per cent. Notes due July 2019)

Guaranteed by

POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

(incorporated in Poland with limited liability)

Issue Price: 99.218 per cent.

(plus accrued interest in respect of the period from (and including) 3 July 2015 to (but excluding) the New Issue Date)

PZU Finance AB (publ), a Swedish company incorporated with limited liability (the “**Issuer**”), is issuing EUR 350,000,000 1.375 per cent. notes guaranteed by Powszechny Zakład Ubezpieczeń S.A. (the “**Guarantor**” or “**PZU**”) due July 2019 (the “**New Notes**”). The New Notes will be consolidated and form a series, and be fungible, with the EUR 500,000,000 1.375 per cent. Guaranteed Notes due July 2019 (the “**Original Notes**”) and, together with the New Notes, the “**Notes**”) issued by the Issuer on 3 July 2014 (the “**Original Issue Date**”) on the New Issue Date (as defined below).

The Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Directive 2003/71/EC as amended by Directive 2010/73/EU (together, the “**Prospectus Directive**”). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the New Notes, which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the New Notes to be admitted to the Official List of the Irish Stock Exchange Plc (the “**Irish Stock Exchange**”) (the “**Official List**”) and trading on its regulated market (the “**Main Market**”).

The New Notes will bear interest from (and including) 16 October 2015 (the “**New Issue Date**”) to (but excluding) 3 July 2019 (the “**Maturity Date**”) at a fixed rate of 1.375 per cent. per annum. Interest will be payable in arrear on 3 July in each year up to (and including) the Maturity Date. The New Notes will initially be sold to investors at a price equal to 99.218 per cent. of the principal amount thereof plus accrued interest in respect of the period from (and including) 3 July 2015 to (but excluding) the New Issue Date.

The Notes mature on 3 July 2019 but are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time on any Interest Payment Date in the event of certain changes affecting the taxes of Sweden or Poland. The Notes are also subject to redemption at their principal amount, together with accrued interest (if applicable), at the option of the Noteholders (Put Option) at any time on any Redemption Date on the occurrence of a Relevant Event. See “*Terms and Conditions of the Notes - Redemption and Purchase*”.

The New Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S (“**Regulation S**”) under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”).

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The New Notes will be issued in registered form in minimum denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes are intended to be held in a manner which would allow Eurosystem eligibility and will be represented by a global registered note certificate (the “**Global Certificate**”) which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) on or around 16 October 2015 (the “**Closing Date**”). Definitive note certificates (the “**Definitive Note Certificates**”) evidencing holdings of Notes will be available only in certain limited circumstances. See “*Summary of Provisions Relating to the Notes in Global Form*”.

The Original Notes were rated A- (outlook stable) by Standard & Poor's Credit Market Services Europe Limited (“**S&P**”) and it is expected that the rating of the Notes will be the same immediately after the issuance of the New Notes. The “**Guarantor's**” financial strength rating by S&P is A (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. S&P is established in the European Union (the “**EU**”), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the “**CRA Regulation**”). This list is available on the ESMA website (<http://www.esma.europa.eu/page/list-registered-and-certified-CRAs>) (last updated 10 July 2015).

Investing in the New Notes involves a high degree of risk. See “*Risk Factors*” beginning on page 4.

Joint Lead Managers

BofA MERRILL LYNCH

DEUTSCHE BANK

GOLDMAN SACHS INTERNATIONAL

SANTANDER GBM

SOCIÉTÉ GÉNÉRALE

CORPORATE & INVESTMENT BANKING

The date of this Prospectus is 15 October 2015

This Prospectus constitutes a prospectus for the purpose of Article 5 of the Prospectus Directive 2003/71/EC and for the purpose of giving information with regard to the Issuer, the Guarantor and its subsidiaries and affiliates together, (the “**Group**”), and the New Notes which, according to the particular nature of the Issuer, the Guarantor and the New Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor and of the rights attaching to the New Notes. The Issuer and the Guarantor having taken all reasonable care to ensure that such is the case, accept(s) responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Guarantor the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither the Joint Lead Managers nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the New Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the New Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Guarantor or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Issuer or the Guarantor since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the New Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the New Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the New Notes. Consequently this document is being distributed only to, and is directed at persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as “**relevant persons**”). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the New Notes and the distribution of this Prospectus and other offering material relating to the New Notes is set out under “*Subscription and Sale*” and “*Summary of Provisions Relating to the Notes in Global Form*”.

Unless otherwise specified or the context so requires, references to “**zloty**” and “**PLN**” refer to Polish Zloty, references to “**kr**”, “**kroner**” and “**SEK**” refer to Swedish kroner, “**U.S. Dollars**” and “**U.S.\$**” are to United States dollars, references to “**euro**”, “**EUR**” and “**€**” are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. References to “**billions**” are to thousands of millions.

The language of the prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

In connection with the issue of the New Notes, Société Générale (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot New Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the New Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the New Notes and 60 days after the date of the allotment of the New Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Each potential investor in the New Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the New Notes, the merits and risks of investing in the New Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the New Notes and the impact the New Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the New Notes;
- (iv) understand thoroughly the terms of the New Notes; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements” which can be identified by the use of forward-looking terminology, such as the terms “believes,” “expects,” “anticipates,” “projects,” “estimates,” “will,” “intends,” “seeks,” “may,” “should” or similar expressions or, in each case, their negative, other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts and they appear in a number of places throughout this Prospectus and include, without limitation, statements with regard to the Group’s intentions, beliefs or current expectations relating to, among other things, the Group’s future financial position, results, performance, achievements and prospects along with future industry results and performance. By their nature, forward-looking statements involve inherent risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Investors are cautioned that the forward-looking statements contained in this Prospectus are not guarantees of the Group’s future financial position, results, performance, achievements or prospects and that the Group’s actual future financial position, results, performance, achievements and prospects may differ materially from those suggested or implied by the forward-looking statements contained in this Prospectus.

In addition, these forward-looking statements speak only as at the date of this Prospectus. Except to the extent required by applicable law, the Issuer does not intend to update or revise any of the forward-looking statements contained in this Prospectus, whether as a result of new information, future events or otherwise, and the Issuer hereby expressly disclaims any obligation to do so. All subsequent written or oral forward-looking statements attributed to the Group or persons acting for the Group or on the Group’s behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. Investors should not place undue reliance on any such forward- looking statements.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

FINANCIAL INFORMATION

The financial information relating to PZU and its consolidated subsidiaries (together, the **Group**) and set out in this document has been derived from:

- the Group's unaudited, but reviewed, interim consolidated financial statements as at, and for the six months ended, 30 June 2015 (the "**Interim Financial Statements**");
- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2014 (the "**2014 Financial Statements**"); and
- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2013 (the "**2013 Financial Statements**" and, together with the 2014 Financial Statements, the "**Annual Financial Statements**" and, together with the Interim Financial Statements, the "**Financial Statements**").

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board and related interpretations published as European Commission regulations. Certain information, including information in the presentation of segment results (note 7 to the 2014 Financial Statements) and information relating to own funds and solvency margins (note 9 to the 2014 Financial Statements), in the Annual Financial Statements has been prepared in accordance with Polish Accounting Standards ("**PAS**"). Where such information is included in this Prospectus, it is identified as having been prepared in accordance with PAS.

The Interim Financial Statements have been reviewed and, accordingly, all financial information in this document as at, and for the six month periods ended, 30 June 2015 and 30 June 2014 has been reviewed. The 2014 Financial Statements have been audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. (the "**Auditors**") in accordance with section 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and the national auditing standards, issued by the National Council of Statutory Auditors in Poland. The 2013 Financial Statements have been audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. ("**Deloitte**") in accordance with section 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and the national auditing standards, issued by the National Council of Statutory Auditors in Poland. The Auditors have issued an unqualified audit report in respect of the 2014 Financial Statements. Deloitte have issued an unqualified audit report in respect of the 2013 Financial Statements.

In accordance with applicable Polish legal requirements which require an insurance company's auditor to be changed every five years, the Group changed its auditors for the financial year commencing 1 January 2014.

The Group's financial year ends on 31 December and, save where the context does not permit, references in this Prospectus to **2014** and **2013** are to the 12-month period ended on 31 December of such year.

CERTAIN CONVENTIONS

Rounding

Certain figures contained in this Prospectus, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Prospectus may not conform exactly to the total figure given for that column or row. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

Market share

Where possible, market share data referred to in this Prospectus has been sourced from independent sources as stated. Where an estimate of the Group's market share has been included, it has been calculated by the Guarantor using its own data and that of its competitors based on available information released by the Guarantor's competitors. Undue reliance should not be placed on market share data because of differences in the dates as of which such data may be made available by the Guarantor and its competitors and because the Guarantor cannot verify the information provided by its competitors.

No representation or warranty

Market data and certain industry data, forecasts and statements regarding the Group's position in the insurance industry made in this document are based on the Guarantor's own internal estimates and, in some cases, on industry data collected by the relevant bodies referred to. While the Guarantor believes the statements contained in this document, including customer and market share information, to be reliable and to provide fair and adequate estimates of the size of the insurance market and fairly reflect the Group's competitive position within that market, these statements have not been independently verified and the Guarantor does not make any representation or warranty as to the accuracy or completeness of such information in this Prospectus.

None of the market or industry data contained in this Prospectus has been audited or otherwise reviewed by external auditors, consultants or independent experts.

NON-IFRS INFORMATION

This Prospectus includes references to certain insurance ratios, such as the combined ratio and the solvency ratio. Although these ratios are not IFRS measures, the Group believes that they are important to understanding the Group's insurance business and its capital and solvency position. The Group's determination of these ratios may be different from those of other insurance companies.

DEFINED AND TECHNICAL TERMS

In this Prospectus:

combined ratio means the sum of net insurance claims and benefits, acquisition costs and administrative expenses and reinsurers' commissions and share in reinsurers' profit divided by net earned premium, calculated for non-life insurance business;

loss ratio means the sum of net insurance claims and benefits divided by net earned premium; calculated for non-life business;

margin ratio means the operational profit divided by gross written premium, calculated for group and individually continued life business;

premium ceded ratio means reinsurer's share in the written premium divided by gross written premium;

solvency ratio means an insurance company's own funds divided by required solvency margin.

The Group's reporting currency is the Polish Zloty and its share capital is denominated in Polish Zloty.

TABLE OF CONTENTS

	Page
OVERVIEW	1
RISK FACTORS	4
TERMS AND CONDITIONS OF THE NOTES	23
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM.....	40
USE OF PROCEEDS	44
THE ISSUER.....	45
DESCRIPTION OF THE GROUP	46
MANAGEMENT AND EMPLOYEES.....	81
THE INSURANCE MARKET	88
REGULATION.....	90
TAXATION.....	93
SUBSCRIPTION AND SALE	99
GENERAL INFORMATION	101
INDEX TO FINANCIAL STATEMENTS	104

OVERVIEW

General Description of the Offering

Issuer:	PZU Finance AB (publ).
Guarantor:	Powszechny Zakład Ubezpieczeń S.A..
Principal Paying and Transfer Agent:	Deutsche Bank AG, London Branch.
Joint Lead Managers:	Banco Santander, S.A. Deutsche Bank AG, London Branch Goldman Sachs International Merrill Lynch International Société Générale
Registrar:	Deutsche Bank Luxembourg S.A.
The Issue:	EUR 350,000,000 1.375 per cent. Guaranteed Notes due 2019. to be consolidated and form a single series with the Issuer's EUR 500,000,000 1.375 per cent. Notes due July 2019.
Issue Price:	99.218 per cent. of the principal amount of the New Notes (plus accrued interest in respect of the period from (and including) 3 July 2015 to (but excluding) the New Issue Date).
Original Issue Date:	3 July 2014.
New Issue Date:	16 October 2015.
Date on which the New Notes will be consolidated and form a single Series:	The New Notes will, on the New Issue Date, be consolidated and form a single series, and be fungible, with the Original Notes.
Maturity Date:	3 July 2019.
Interest Rate:	The New Notes will bear interest at the rate of 1.375 per cent. per annum from and including the New Issue Date to but excluding the Maturity Date (as defined in " <i>Terms and Conditions of the Notes</i> ").
Yield:	1.593 per cent..
Interest Payment Dates	Interest will be payable annually in arrear on 3 July in each year, commencing on 3 July 2016.
Withholding Taxes:	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Sweden or Poland or any political subdivision or any authority thereof or therein

	having power to tax, unless such withholding or deduction is required by law, as described in Condition 10 (<i>Taxation</i>).
Ranking:	The Notes constitute direct, general, unconditional and (subject to Condition 5 (<i>Negative Pledge</i>)) unsecured obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
The Guarantee:	The Guarantor has, in the Deed of Guarantee, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes, see Condition 4 (<i>Status and Guarantee</i>).
Cross Default:	The terms of the Notes will include a cross-default provision relating to indebtedness in excess of EUR 25,000,000 as described in Condition 12 (<i>Events of Default</i>).
Negative Pledge:	The terms of the Notes will include a negative pledge as described in Condition 5 (<i>Negative Pledge</i>).
Optional Redemption:	If a Change of Control Event (as defined in the Conditions) occurs, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving notice to the Issuer at any time during the Redemption Period, redeem such Note on the Redemption Date at 100 per cent. of its principal amount together (if applicable) with interest accrued and unpaid to (but excluding) the Redemption Date, as described in Condition 9(c) (<i>Redemption at the option of the Noteholders (Put Option)</i>).
Tax Redemption:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in Sweden or Poland as further described in Condition 9 (b) (<i>Taxation</i>).
Use of Proceeds:	The net proceeds of the issue of the New Notes, will be used by the Issuer for general corporate purposes.
Form of the Notes:	The Notes are issued in registered form in minimum denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of a nominee for and deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See “ <i>Summary of Provisions Relating to the Notes in Global Form</i> ”. It is intended that the Notes will be held in a manner which would allow Eurosystem eligibility.
Listing and Clearing:	Application has been made to list the New Notes on the Irish Stock Exchange and to trading on the Market. The Notes have been accepted

	for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN Code: XS1082661551. Common Code: 108266155.
Governing Law:	The Notes, including any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	The offering and sale of New Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, Sweden and Poland. See “ <i>Subscription and Sale</i> ”.
Ratings:	The Original Notes were rated A- by S&P and it is expected that the rating of the Notes will be the same immediately after the issuance of the New Notes.
Risk Factors:	Investing in the New Notes involves a high degree of risk. See “ <i>Risk Factors</i> ” beginning on page 4.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their respective obligations under the Notes and the Guarantee. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. The occurrence of any of the factors described below is likely to have a material adverse effect on the Group's business, results of operations, financial condition and cash flows.

In addition, factors which the Issuer and the Guarantor believe are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the New Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes or the inability of the Guarantor to make payments under the Guarantee may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Notes and the Guarantee are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

RISKS RELATED TO THE GROUP

The Group faces increased competition from other insurers which offer the same or similar products or services

The Polish insurance industry is competitive with competition being based principally on price, product features, commission structures, administrative performance and support services. Historically, Państwowy Zakład Ubezpieczeń, PZU's legal predecessor, had a monopoly in the Polish insurance market. As a result of market liberalisation and Poland's accession to the European Union, new competitors, both foreign and domestic, have emerged in the Polish insurance industry. The Polish insurance market has low barriers to entry and is relatively large and less saturated with insurance products than the insurance industries of some other member states of the European Union. As a result, Poland has become an expansion territory for international insurance companies. In particular, the Group currently faces increased competition in its motor insurance businesses from numerous insurance companies. Some of these competing insurance companies may achieve, or already have achieved, competitive advantages over the Group or may offer products at low prices which, if the Group was forced to match, would erode the Group's profitability.

Consumer demand, technological changes, regulatory changes and actions, access to distribution channels and other factors also affect competition. Generally, if the Group is unable to offer competitive, attractive and innovative products and services that are also profitable, does not choose the right product offering or distribution strategy, fails to implement such a strategy successfully or fails to respond or successfully adapt to such demands and changes, it could lose market share, incur losses on some or all of its activities and experience lower growth. The Group's competitive position could also be materially adversely impacted if it is unable to match the prices offered by its competitors or justify the higher prices by reference to an enhanced quality of its products and services or the scope of its insurance coverage.

The Group is exposed to credit risks, including a significant concentration risk with respect to its financial institution counterparties

The Group is exposed to the risk that its counterparties will not meet their respective obligations to the Group. The risk specifically applies to issuers of securities purchased by the Group, the banks with

which it holds excess cash and the reinsurance companies to which it cedes risk. Third parties may default on their obligations to the Group due to bankruptcy, lack of liquidity, economic downturns, operational failure, fraud or other reasons. Investment losses that may occur due to credit risk include actual losses from defaults, fair value losses due to credit rating downgrades and/or credit spread widening, or impairment write-downs.

The Group has significant investments in Polish treasury securities which could negatively impact the value of the Group's investment portfolio in the event of a ratings downgrade of Poland and increase the risks relating to long-term asset and liability structures

As of the date of this Prospectus, the majority of the Group's liabilities are denominated in PLN which means that it needs to make significant investments in PLN denominated assets to match these liabilities. The Group is subject to regulatory requirements in respect of its investment activities, including limits on categories of assets in which the Group may invest and caps on the Group's investments in certain assets. Both these factors limit the Group's opportunities to invest abroad or to invest in foreign currencies. In the Polish financial markets there are currently limited investment grade securities denominated in PLN in which the Group may invest its assets. As a result, at 31 December 2014, the Group's investment portfolio included PLN 36.2 billion of Polish treasury securities, (including securities subject to buy-sell-back transactions) or 63.7 per cent of the total value of its financial assets. As of the date of this Prospectus, Poland has been assigned an "A" local currency credit rating by Standard & Poor's, i.e. the highest available rating for investment grade securities denominated in PLN. A decrease in the credit rating of Polish treasury securities may negatively impact the value of the Group's investment portfolio. Additionally, an increase in the supply of treasury securities resulting from the Polish government's demand for debt or an increase in the volume of sale of such securities by investors, may negatively affect the price of such securities. Given the size of the Group's portfolio of Polish treasury securities, an attempt by the Group or other large investors to sell all or a large portion of such securities could adversely affect their price. It could also negatively impact the liquidity of the Polish treasury securities' market.

The Group may be unable to implement its strategy

The Group's strategy focuses on maintaining its position as a leader in the Polish market for insurance products and services as well as improving its asset management and increasing its healthcare provision and on achieving attractive returns for its shareholders, see "*Description of the Group - Strategy*"). Implementation of the strategy is contingent upon a range of factors that are beyond the Group's control, including, in particular, market conditions, the general business environment, legal regulations, including regulatory actions, and the activities of its main competitors. Any failure by the Group to retain its leadership position in the Polish insurance market could materially reduce its attractiveness to existing and potential new customers, could damage its credit ratings and could result in increased costs or reduced revenue as the Group seeks to regain lost market share. Moreover, given the Group's desire to expand into the healthcare sector and into banking and financial services sector, the Group will be faced with new challenges which will require new skill sets. A failure to gain these skillsets or to meet these challenges could hinder the implementation of the Group's strategy.

The group life insurance business of PZU Życie is heavily dependent on individuals assigned by corporate customers to perform certain technical services with respect to the insurance portfolio which could be prevented or restricted as a result of a change of laws or their interpretation

In the group life insurance segment, PZU Życie cooperates with approximately 80,000 individuals employed by the companies to which the group life insurance is offered. These individuals perform certain technical services relating to the insurance products. They also conduct market research, customer satisfaction surveys and serve as a first point of contact with PZU Życie for the insured employees.

Any change in applicable laws, or in their interpretation which prevents or restricts these individuals from cooperating with PZU Życie in the group life insurance segment could have a material adverse effect on the Group's business, revenues, results of operations or financial condition.

Any failure to act with complete integrity or to protect the confidentiality of customer information could adversely affect the Group's reputation

The Group's operations depend on it displaying a high level of integrity and obtaining the trust and the confidence of its customers. Any mismanagement, fraud or negative publicity resulting from the Group's activities, or any accusation of misconduct by a third party in relation to the Group's activities, even if unfounded, could result in the Group losing current policyholders, subject the Group to closer scrutiny from regulators than would otherwise be the case, increase the Group's cost of borrowing, including in debt capital markets transactions, or adversely affect the Group's ability to obtain reinsurance or to obtain reasonable pricing on reinsurance. In addition, reputational risks affecting individual group companies may impact the Group as a whole. Further, if, for any reason, any of the Group's business partners suffers reputational damage, this could also negatively impact the Group's image and subsequently lead to loss of customers and market share.

The Group's businesses and relationships with customers are also dependent upon its ability to maintain the confidentiality of its own and its customers' trade secrets and confidential information (including customer transactional data and personal data about the Group's employees and customers). In most of the jurisdictions in which the Group operates, governments have established rules protecting the privacy and security of personal information. Certain of the Group's employees and contractors and many sales representatives of the Group's intermediaries have access to and routinely process personal information of customers through a variety of media, including the internet and software applications. The Group relies on various internal processes and controls to protect the confidentiality of its customer information that is accessible to, or in the possession of, the Group's employees, contractors and sales representatives. It is possible that an employee, contractor or sales representative could, intentionally or unintentionally, disclose or misappropriate confidential customer information. If the Group fails to maintain adequate internal controls or if its employees, contractors or sales representatives fail to comply with the Group's policies and procedures, intentional or unintentional inappropriate disclosure or misuse of customer information could occur. Such internal control inadequacies or non-compliance could materially damage the Group's reputation with its customers, business partners, supervisors and shareholders.

The Group's operations are dependent on the proper functioning of its IT systems

The Group depends on its information technology ("IT") systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's insurance handling, customer data, policies, claims and payment records, financial control, risk management, accounting and other information technology systems, as well as the communication networks between its subsidiaries and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities, in particular those of the internet-based Link4 Towarzystwo Ubezpieczeń S.A. ("**Link4**"), would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control including natural disasters, extended power outages, cyber-attacks, computer viruses and system malfunctions. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties and could also materially adversely impact its reputation. The Group has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these

safeguards will be fully effective and any failure may have a material adverse effect on the Group's business and reputation. The Group is also reliant on its IT suppliers to support the operation of its IT infrastructure and externally purchased software and on the continuing operation and its ability to upgrade as required its internally-developed software.

The Group depends on its ability to recruit and develop appropriately qualified employees and senior management

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced insurance and management personnel. The market for such personnel in Poland is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses.

The Group also depends on the efforts, skill, reputation and experience of its senior management. If the Group were to unexpectedly lose the services of some or all members of its senior management team, the strategy of the Group and its business could be adversely affected.

Given the position of the Group in the Polish insurance sector, the importance of senior management to the operation of the Group and the high profile status of the Group's senior management in the Polish insurance sector, the Group's competitors are aggressive in their efforts to recruit employees and senior management of the Group. Frequent changes in the senior management team may reduce its ability to implement the Group's strategy effectively and may expose the Group to increased operational risk.

Collective disputes with the Group's employees may interfere with its operations

Some of the Group's employees are members of trade unions. Trade unions in Poland are guaranteed the right to participate in and influence the legislative process in respect of labour laws and to influence employers, including the right to engage in individual and collective labour disputes. In particular, trade unions participate in setting the terms of employment, including compensation, and may exert pressure on employers in a number of ways, including through collective disputes. Furthermore, trade unions have been granted the right to coordinate and be consulted about certain corporate actions (including restructuring plans adopted by companies). Although each member of the Group attempts to maintain good relations with its employees and to resolve any conflicts on an ongoing basis, it is possible that collective disputes with members of the Group may occur in the future. Such collective disputes, particularly long-lasting ones, could materially adversely affect the Group's reputation and damage its revenue and profitability.

The Group's historical operating and financial results may not be indicative of its future operating and financial results

The future operating and financial results of the Group will be affected a number of factors, some of which will be outside the Group's control or extraordinary in nature and many of which may be identified as current risks in these Risk Factors. As a result, the historical operating and financial results of the Group should not be treated as indicative of its future operating and financial results.

FINANCIAL MARKET RISKS AND CONDITIONS

The effects of the global financial crisis had, and any further deterioration of the global economy may have, an adverse effect on the Group's business, financial condition and results of operation

The performance of the Group is generally influenced by the condition of the global economy. It is still unclear whether the measures used to solve the Eurozone sovereign debt crisis have been

effective. Other risks such as a decline in China's economy, the depreciation of emerging markets assets or an interest rate increase by the U.S. Federal Reserve could lead to financial turmoil and have a significant negative influence on the Group's business and financial position.

Impaired access to capital and credit markets combined with increased credit spreads may raise the Guarantor's financing costs and reduce its financial flexibility. These developments would also create an unfavourable environment for the insurance sector and would be likely to adversely affect the business, investment result, financial condition and results of operations of the Group.

Economic conditions in Central and Eastern Europe and any devaluation of the currencies in these countries could have an adverse effect on the Group's business, financial condition and results of operations

The economic and financial conditions of other Central and Eastern European countries could influence the economic and financial conditions of Poland, and the financial assets of other Central and Eastern European countries may be treated as the same "asset class" as Polish financial assets by foreign investors. As a result, these investors may reduce their investments in Polish financial assets due to poor economic and financial conditions in other Central and Eastern European countries. Specifically, the devaluation or depreciation of any of the currencies in Central and Eastern Europe could also impair the strength of the PLN.

The major source of exposure for the Group is the motor insurance business, where it pays for spare car parts, the majority of which are manufactured in the Eurozone. Therefore, the depreciation of the PLN against the EUR causes an increase in the costs of car repairs following an accident. Similarly, claims for accidents occurring outside Poland often correlate closely with fluctuations in the PLN exchange rates. Any of these factors, or a combination of them, could have an adverse effect on the Group's business, financial condition and results of operations.

Since 2014, the political and economic situation in Ukraine has been unstable. A rising inflation rate, the strong depreciation of local currency (the Ukrainian hryvnia), the weakness of the local financial sector as well as the threat that hostile military action will spread across Ukraine are factors which could adversely impact the Group's Ukrainian operations and results.

Any negative changes in the Polish equity markets could have a material adverse effect on the Group's investment results

The Group's investment portfolio is exposed to risks in the Polish equity markets. The Group invests in stock listed on the Warsaw Stock Exchange through investment funds. As of 31 December 2014, investments in these listed shares constituted about 4.8 per cent of the Group's investment portfolio.

Fluctuations in the Polish equity market have affected, and will continue to affect, the Group's investment results, and consequently its profitability, as well as its capital position and sales of equity-related investment products.

In addition, the Group's revenues from investment and fund management services and investment-linked life insurance services depend, among others, on the value of assets under management. A decline in the equity markets would lead to a decrease of the value of managed assets and, therefore, a decrease in the fees charged by the Group for the investment services.

Interest rate volatility could have a material adverse effect on the Group's profitability, as well as on the European Embedded Value and economic capital under Solvency II regulations

Interest rates depend on many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Group.

A substantial proportion of the Group's debt securities portfolio comprises assets such as Polish treasury securities that are held-to-maturity. Consequently, fluctuations in market interest rates do not influence the book value of these securities or the profit or loss of the Group. However, fixed rate debt securities that are classified as available-for-sale or at fair value through profit or loss are sensitive to fluctuations in market interest rates. An increase in market interest rates decreases the fair value of such securities, which in turn is reflected in profit or loss or comprehensive income and can negatively impact the Group's profitability and financial position.

Additionally, a prolonged decline in market interest rates could result in reduced investment returns in the long term as debt securities mature and are replaced with lower-yielding securities. This factor is particularly important for payments in the form of annuities in the non-life segment and in the traditional life insurance segment, in particular with respect to regular premium-products, since it may result in the Group's assets not generating the income necessary to service these products.

Additionally, the amount of the European Embedded Value (which is the value to shareholders of expected future distributable earnings arising from an insurance company's in-force business) of the Group and the reconciliation reserve as defined in Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing the Solvency II Directive may decrease or increase in the event of fluctuations in the estimated interest rates.

Adverse capital and credit market conditions may materially adversely affect the Group's liquidity and its ability to obtain credit on acceptable terms

The Group's access to financing depends on a variety of factors such as market conditions, the general availability of funding, the overall availability of credit to its industry, the value of its assets which may be used to secure loans and securities repurchase facilities, its credit ratings and credit capacity, as well as lenders' perception of its long- or short-term financial prospects. In the event that the Group needs access to additional capital and funding to pay its operating expenses, make payments on its indebtedness, fulfil its solvency requirements, pay for capital expenditures or to fund acquisitions, its ability to obtain such capital may be limited in times of adverse credit market conditions and the cost of any such capital may be significant, which could adversely affect the Group's profitability and impair its business flexibility.

Any reduction in the Group's credit rating could increase its cost of funding and adversely affect its interest margins

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. A reduction in the Guarantor's or PZU Życie's credit and financial strength ratings could increase the costs associated with the Group's interbank and capital market transactions and could adversely affect the Group's liquidity and competitive position, undermine confidence in the Group, increase its borrowing costs and adversely affect its interest margins.

A downgrade or a potential downgrade of the Guarantor's or PZU Życie's credit rating could, among other factors, limit its opportunities to operate in certain business lines, adversely affect its reputation with various intermediaries and customers, reduce reinsurance opportunities, increase reinsurance costs and reduce demand for the Group's products.

RISK RELATED TO THE INSURANCE INDUSTRY AND THE OPERATIONS OF THE GROUP

Actual claims and benefits paid may be greater than the expected outcomes that were used in pricing products and in establishing provisions for such claims

The Group's results of operations and financial condition depend upon its ability to assess accurately the potential losses associated with the risks that it insures. Such an assessment must take place at the time when premiums are determined, after the claim has been reported and in the course of the claim development over time. The establishment of technical provisions is an inherently uncertain process that depends on assumptions of future events. The level of reserves for potential claims may increase over the life of the insurance contracts. For example, the number of court proceedings relating to personal injury claims has increased because of growing client awareness and a number of specialised law firms acting on behalf of the insured. To determine technical provisions, the Group monitors its current operations against its assumptions and employs statistical models to update and specify more precisely its long-term assumptions. However, statistical methods and models may not accurately quantify the Group's risk exposure if circumstances arise that were not observed in the historical data or if the data otherwise prove to be inaccurate. The accuracy of potential loss reserve estimates is, in particular, dependent on changes in the overall legal framework, results of court proceedings, changes in treatment costs, repair costs, loss frequency, amount of loss and other factors, such as inflation or interest rate changes. Loss reserves estimates are also related to the amount paid in connection with claims and benefits which fluctuate over time. Loss reserve estimates may also need to be increased where a decrease in the market level of interest rates impacts the profit from assets which cover the technical provisions for the life insurance products that contain interest rate guarantees.

If the figures assumed and the models used by the Group to determine premiums and establish provisions for actual and potential claims fail and the actual amount of claims and benefits paid exceeds the assumed value, the technical provisions of the Group may turn out to be insufficient, which would negatively impact its profitability.

The Group's life insurance business is exposed to risks related to mortality, longevity and morbidity

The Group's insurance business, especially in the life insurance segment, is exposed to mortality risk, or the risk that the insured party dies sooner than expected, longevity risk, or the risk the insured party lives longer than expected, and morbidity risk, or the risk that the insured party falls seriously ill or is disabled.

Increasing life expectancy in combination with a low birth ratio can affect the Group's results through higher morbidity claims, higher pay-outs from annuities and a decreasing group of more profitable wealthy customers.

Future unfavourable changes in the monitored levels of mortality, longevity, morbidity and disability may lead to the Group not adequately pricing its products which could result in the collection of fewer premiums than is necessary to cover future claims, not having reserved enough in technical provisions, and more claims being made and benefits paid out, all of which would have a material adverse effect on the Group's future profitability.

The Group's revenue may be adversely affected by higher than expected policy lapses or surrenders

Insurance policy lapses are of material importance to the operations of the Group especially in the life insurance segment. The lapse risk in the life insurance segment is principally the risk of losing current levels of revenues and stability of cash flows when contracts lapse. Additionally, the Group is also exposed to lapse risk in the non-life insurance business. Such risk may increase due to the use of automatic renewals (automatic extension), particularly in the case of products such as motor insurance products, where there is no direct contact with the customer. A material number of policy lapses or

surrendered contracts may lead to a substantial decrease in insurance premiums and may have a material effect on the Group's gross premiums, fee income and results of operations.

Reinsurance may not be available, affordable or adequate to protect the Group against losses, and reinsurers may default on their reinsurance obligations

The Group is party to reinsurance agreements under which all or a part of the insured risk or groups of specific types of risks are transferred to reinsurance companies which assume such risks in return for a portion of the insurance premium. The Group's most important reinsurance contracts are non-proportional excess of loss treaties which protect the Group against substantial individual losses and accumulation of risks from catastrophes such as floods and windstorms.

Market conditions beyond the Group's control determine the availability and cost of reinsurance. The Group may therefore be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, either of which could materially adversely affect its ability to obtain future business and could expose it to higher levels of losses.

Furthermore, the Group remains liable to its policyholders even where a reinsurer fails to meet its reinsurance obligations. Reinsurers with whom the Group enters into reinsurance agreements may have difficulties in performing their obligations, which may result in increased charges to the Group. There is no assurance that reinsurance agreements executed by the Group will always provide sufficient protection. A default by a reinsurer to which the Group has material exposure could expose the Group to significant unexpected losses.

Catastrophic events and extraordinary risks could threaten the business continuity of the Group

The Group insures risks related to catastrophes caused by human activity, as well as natural disasters, such as flood, windstorm, tornado, hailstorm, frost, fire and drought. The frequency and intensity of natural disasters are hard to forecast. Additionally, changes of weather and climatic conditions in recent years have created greater uncertainty as to the future occurrence of catastrophic events.

Generally, the Group's exposure to catastrophic risks depends on the frequency of such catastrophic events as well as the amount of claims paid in relation to them. If catastrophes damage the property protected by policies written by the Group with a significantly greater frequency or intensity than previously experienced, the benefits paid and the provisions created for that purpose may have a material adverse impact on the Group's profitability. Moreover, depending on the terms of insurance and payment terms, the Group may be required to disburse such benefits over a short time span, which could negatively affect its cash flow.

The Group depends on external distribution channels, including an extensive sales network

The Group is dependent on its own agents, multi-agencies, brokers and other distributors of its products. The Group's relationships with its third party distributors may be adversely affected by its ability to offer competitive products. The non-exclusive product distributors used by the Group can determine which insurance company's products they offer by assessing the characteristics and price of such products, services provided to the insured, the sale commission, as well as the service procedures applied to distributors and policyholders. An unsatisfactory assessment of the Group and its products based on any of these factors by these intermediaries could result in both the Group and its products not being actively marketed which would negatively impact its revenue and market shares. The Group competes with other insurers and financial institutions to attract and retain commercial relationships with third party distributors. Additionally, the exclusive distributors that offer the Group's products and services may decide to start cooperating with other insurance companies, ending the relationship with the Group or changing the cooperation with the Group to a non-exclusive one. If

the Group's relationships with key distributors deteriorate, it may be unable to secure alternative, equally cost-effective distribution channels, which could also increase its costs and negatively affect its business.

The growing importance of the internet and social media is likely to have an impact on the distribution of insurance policies and the Group may not be able to adapt as successfully as its competitors to the changing business environment

Traditionally, insurance products have been distributed through intermediaries in face-to-face transactions. However, the increasing use of the internet, smart phones and social media is changing the way customers and insurance companies interact. When purchasing insurance products, a growing number of customers move between different distribution channels. For instance, customers generally use the internet to gather information about the products and seek personal advice when purchasing the policy itself. For such "hybrid customers", an agent plays a much less important role compared with a more traditional customer. Moreover, the Group expects customers to increasingly seek direct sales of insurance products through the internet, i.e. without the use of an intermediary. These new market trends are likely to have a significant effect on the distribution of insurance products in the future. In 2014, the Group acquired Link4 which is internet based and is the leading direct insurance provider in Poland. However, if the Group is less successful than its competitors in adapting its business strategy to the changing environment, this may adversely affect its revenue, reputation and market shares.

The Group's business operations and risk management require complex models and significant management assumptions, which may prove to be inaccurate over time

The Group's business operations and risk management require complex models under which it needs to properly reflect the value of its business and an adequate allowance for risks associated with it. This includes a constant assessment of numerous factors, such as the long-term development of interest rates, investment returns, the allocation of investments between equity, fixed income and other categories, policyholder interest and crediting rates (some of which are guaranteed) and the overall approach to policyholder participation, mortality and morbidity rates, policyholder lapses and future expense levels. The Group monitors its actual experience regarding these assumptions and to the extent that it considers that this experience may not continue in the longer term, it refines its long-term assumptions.

The actuarial practices and assumptions listed above are, among other factors, the basis for (i) its "best estimate" actuarial assumptions under IFRS liability adequacy testing, (ii) capital requirements under applicable regulations and (iii) the calculation of insurance premiums and reserves. In each of these cases the Group must rely on its own assumptions and estimates when operating its risk analysis and risk management systems. The assumptions used may differ from actual developments in the future. Adjustments in such assumptions may have to be made in response to revised legal and regulatory requirements, changing financial markets or expected future actuarial experience, which may lead to changes in the Group's solvency position as well as the accounting of, and reserves required for, the Group's insurance operations.

Certain risks faced by the Group are non-hedgeable and even with hedgeable risks there is a residual risk that the hedging arrangements concluded by the Group do not or only partially mitigate such risks.

The Group's internal controls may not be sufficient in certain circumstances to adequately monitor the size and type of operations carried out by the Group

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory

requirements and conduct of business rules, systems and equipment failures, natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

The Group's internal control system may be less developed in certain respects than those of insurance companies of a similar size located in other markets. As the Group expands its operations and seeks additional development opportunities, it will also need to enhance its internal control system to reflect the demands of the size of the Group and its business activities, and this could result in significant costs and potential operational disruption.

The Group is exposed to failures in its risk management systems

In common with all financial companies, the Group has a sophisticated risk management system in place. However, these systems may not be sufficient to prevent all risks occurring. The Group manages risk partly through the use of observed historical market behaviour and statistics based on historical models. These methods may not fully predict future risk exposures, which may be significantly greater than the Group's historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other available information. This information may not always be accurate, complete, up-to-date or properly evaluated. In addition, certain risks could be greater than the Group's empirical data would otherwise indicate any deficiency in the Group's risk management systems could materially adversely affect its reputation, results of operations, financial condition and cash flows.

The Group may not be able to complete and manage acquisitions effectively

As part of the Group's growth strategy, the Group may seek to acquire other companies. For example, in 2014, the Group acquired insurance operations in Lithuania, Estonia, Latvia and Poland from RSA. On 30 May 2015 the Group announced that it had agreed to acquire approximately 25.25 per cent. shares in Alior Bank S.A. and in 2015, the Group acquired shares in three medical companies - Nasze zdrowie Sp. z o.o., Medicus w Opolu Sp. z o.o. and Rezo-Medica Sp. z o.o.. There is no guarantee that the Group will be able to identify attractive targets in the future or that it will be able to acquire them on favourable terms or at all.

Significant acquisitions involve a number of risks that could adversely impact the Group, including:

- diversion of management attention and financial resources that would otherwise be available for the ongoing development or expansion of existing operations;
- difficulties in integrating the operations and personnel of the acquired business, including unexpected losses of key employees and clients of the acquired operations;
- difficulties in integrating the financial, technological and management standards, processes, procedures and controls of the acquired business with those of the Group's existing operations;
- difficulties in realising the anticipated benefits of the acquisition, such as eliminating duplicative costs and reducing overheads;
- challenges in managing the increased scope, geographic diversity and complexity of the Group's operations;

- exposure to unanticipated liabilities and/or difficulties in mitigating contingent and/or assumed liabilities; and
- the lapse of acquired insurance and reinsurance policies.

In addition, although the Group conducts due diligence prior to announcing any acquisition, the due diligence process may fail to identify certain liabilities or unprofitable lines of business or to otherwise adequately evaluate the business to be acquired.

If the Group is unable to integrate future acquisitions, it may be unable to generate sufficient revenues to re-cover acquisition costs or may otherwise fail to realise anticipated benefits from acquisitions. Significant issues with the integration of a newly acquired entity might lead to regulatory fines or orders given the high level of regulatory scrutiny in the insurance industry.

Further expansion into the banking sector carries certain risks

The Group is considering further expansion into the banking sector. Such an expansion carries certain risks for the Group. The Group could become exposed to additional regulations which it may not be able to comply with. It could also be subject to bank levies, taxes and additional solvency and capitalisation requirements that could impose strains on its financial resources and limit its ability to carry on its business. Most Polish banks have substantial Swiss Franc denominated loan portfolios and it is currently not clear what would happen to these in the event of an acquisition. While PZU does not intend to acquire any such portfolios, should PZU become legally obliged to take on such a portfolio then this could have an adverse effect on the Group's overall business. The risks related to the banking sector are significant and, were any of these risks to materialise, PZU's expansion into the banking sector could have a material adverse effect on its business, results of operations and solvency.

The State Treasury, PZU's main shareholder, may influence actions, such as high dividend distributions, which benefit shareholders at the expense of creditors

The State Treasury as at 31 December 2014 owns 35.19 per cent of PZU's shares and has a significant influence on PZU and the Group due to the fragmentation of PZU's shareholder base and the limitations which are imposed on the voting rights of shareholders other than the State Treasury. These are set out in the PZU's statute and described under "*Description of the Group – Major Shareholders*". The State Treasury is able to exert considerable influence over the appointment of the supervisory board and the management board of PZU and may take actions that favour the interests of shareholders of PZU over those of the Group's creditors. The State Treasury is also able to block certain resolutions from being passed, which may lead to conflicts with other shareholders.

The dividend payout ratio on PZU's shares amounted to 98.2 per cent of PZU's statutory net profit for 2014 and 91.3 per cent of PZU's statutory net profit for 2013. The total dividend expected to be paid out for 2014 is PLN 2.6 billion while the Group consolidated net profit for 2014 was PLN 3.0 billion. According to the "PZU Group capital and dividend policy for 2013-2015" it is also possible that the Group will distribute dividends in excess of its consolidated net profit in the coming years, in particular if PZU successfully completes a subordinated note issuance.

Dividends distributed from PZU's reserve capital which might be significantly higher than the net profits generated by it in future periods could weaken the capital strength of the Group, reduce its cash flow and impact the Group's ability to repay its debt.

REGULATORY RISKS

PZU and PZU Życie are subject to minimum solvency and other capital requirements as well as requirements with respect to assets backing technical provisions

Each of PZU and PZU Życie is required to maintain levels of capital and to comply with a number of regulatory requirements relating to its solvency and reporting bases. The Act dated 22 May 2003 on Insurance Activity (the “**Insurance Act**”) requires an insurance company with its registered office in Poland to maintain its own funds at a level not lower than the solvency margin and not lower than the guarantee capital.

The Solvency II Directive was adopted on 25 November 2009 and its regulations must be implemented in each Member State and be effective from 1 January 2016. Pursuant to this new regime, insurers and reinsurers (apart from very small firms) will need to apply more risk-sensitive standards to capital requirements, and the insurance regulation is to be brought more closely in line with the banking and security regulations with a view to avoiding regulatory arbitrage. Additionally, the aim of Solvency II is to align regulatory capital with economic capital and bring about an enhanced degree of public disclosure.

As the process of implementing the Solvency II regulations is still in progress, the Group cannot predict the exact impact that the rules will have on the Group, its business, capital requirements, financial condition, key capital management risk or results of operations. Inconsistent application of Solvency II by regulators in different Member States of the European Union may place the Group’s business at a competitive disadvantage if the rules are implemented less onerously in European Union countries in which the Group does not operate.

Solvency II will be introduced once the President’s final decision has been received. The new Insurance Act has been passed by the Polish Parliament. Currently, the Group is subject to transitional measures. Although the Group’s recent solvency ratio calculations have confirmed the high level of the Group’s solvency, if the Group were to fail to maintain the minimum solvency margins and other capital requirements, then this could result in administrative sanctions which would increase the Group’s operating costs, loss of reputation, and, ultimately, the potential failure of the Group.

Proposed revisions to the Insurance Distribution Directive could increase the Group’s costs and impact its ability to distribute its products

On 3 July 2012, the European Commission published proposals for a revision of the Insurance Distribution Directive (“**IDD**”). The key proposal is a mandatory disclosure requirement obliging insurance intermediaries to disclose to their customers the nature and amount of remuneration they receive, including any contingent commissions, or if the full amount of remuneration cannot be calculated, the basis of its calculation. Further, the proposals for IDD will extend the scope of the current Insurance Distribution Directive to cover direct sales by insurance and reinsurance companies without the use of an intermediary. Insurers carrying out direct sales will be required to comply with information and disclosure requirements and certain conduct of business rules including a general obligation to act honestly, fairly and professionally in accordance with the customer’s best interests. In the case of the sale of bundled products, the insurance company will have to inform customers that they can purchase the components of the package separately and to provide information about the costs of each component when purchased separately. In addition, the proposals set out stricter requirements for the sale of life insurance investment products, for example, an obligation to identify and disclose conflicts of interest and to gather information from customers to assess the appropriateness of the product.

The proposed revisions to the IDD, if adopted, are likely to have a significant effect on the European insurance market. In particular, they will increase the Group’s compliance obligations regarding direct sales and so could raise the costs and complexity of the Group’s direct sales procedures.

The Group is party to a large number of court and arbitration proceedings, the outcome of which is uncertain

As of 30 June 2015, the Group was party to approximately 77,323 court and arbitration proceedings, the total aggregate value of such claims being PLN 3.3 billion. These disputes mainly relate to insurance claims for which the Group recognised technical provisions. Additionally, there are disputes connected with performance under contractual obligations and employee disputes. In total there are PLN 125.8 million provisions related to non-insurance cases as at 30 June 2015. The Group seeks to have such cases resolved favourably on its behalf but the results of such proceedings are often unpredictable and may negatively impact the Group. Although most of the claims against the Group are individually immaterial, if a large number of such claims are resolved against the Group they could, in the aggregate, materially adversely affect the Group's business, revenues, results of operations and financial condition.

Violations by the Group of laws or changes in government regulations in the countries in which the Group operates may result in a range of sanctions and loss of reputation

The Group is subject to a wide range of applicable legislation, including competition and anti-monopoly legislation at both a Polish and EU level. The regulatory bodies supervising the activity of the Group's companies enjoy broad supervisory powers and freedom when making their decisions. In the period following the global financial crisis, a wide range of new regulations affecting European financial institutions (including insurance companies) have been announced (and in some cases implemented) and regulators in the European Union have generally increased significantly the intensity of their supervisory actions. For example, in Poland, the Komisja Nadzoru Finansowego (the "KNF"), the Polish financial supervisory authority, published Regulation U aimed at the banking sector but containing guidelines on insurance distribution aimed at insurance companies which, if implemented, is likely to result in increased costs related to additional product disclosures to clients and the introduction of a new distribution model of insurance product in banks for the Group and may prevent the Group from pursuing some of its business opportunities. In order to adapt to IDD and the KNF guidelines, PZU SA and PZU Życie SA have made a number of adjustments including introducing principles on insurance product distribution, changing standards for the sale of life insurance products with investment elements (e.g. a product charter for unit-linked contracts), changing agency contracts, such as the mandatory disclosure of remuneration, and changing the Bancassurance distribution model to an agency model.

Over recent months, a number of new regulations have been implemented, including:

- Guidelines for outward reinsurance / retrocession (1 January 2015);
- Regulation of the Minister of Administration and Digitisation on a standard on application, appointment or removal of the administrator of information security to the Inspector General for Personal Data Protection (1 January 2015);
- Guidelines for claims handling in motor insurance (31 March 2015);
- Guidelines for insurance companies regarding insurance distribution (31 March 2015);
- Regulation of the Minister of Administration and Digitisation on how to conduct register of personal data files by an administrator of information security (26 May 2015); and
- Regulation of the Minister of Administration and Digitisation on the standard of compliance with processing of personal data (30 May 2015).

Within the next two years, further regulations are planned, including:

- the new Insurance Act (1 January 2016);

- the Guidelines for flood risk management in the insurance sector (1 January 2016); and
- Guidelines for the management of IT and security IT environment in the insurance and reinsurance companies (31 December 2016).

Amendments to the law on competition and consumer protection are also planned. These are expected to enter into force no sooner than six months from the date of this Prospectus to protect customers against misselling, especially in terms of financial products (including life insurance).

New regulations increase the Group's costs and introduce extensive reporting requirements. Should the Group be in breach of any current or future Polish regulations applicable to it, the imposition of fines or other sanctions on the Group, including a requirement to cease certain aspects of its business, could also increase the Group's costs and materially adversely affect its reputation.

In addition, if a member of the Group violates the regulatory requirements in any other country in which it operates there is a risk that the regulatory agency in the relevant country could impose fines or issue injunctions against individual members of the Group and their respective managers. Such regulatory requirements, prohibitions or actions undertaken by regulatory and supervisory bodies in countries where members of the Group operate may have an adverse effect on the current activity of the Group and, in the most extreme case, could lead to the termination of further business activity of the Group in the affected country or as a whole.

Further, acquisitions by PZU of businesses operating in the financial services and insurance sectors may require specific consents issued by Polish authorities, foreign competition authorities or financial sector regulatory authorities. The grant of any such consent depends, among other things, on the evaluation of the consequences that the relevant acquisition may have on competition in the relevant market. No assurance can be given that any such consents would be granted. If consent is refused for a particular acquisition, it will prevent the completion of such acquisition, result in significant lost costs for the Group and could restrict the Group's ability to grow.

Interpretation of Polish laws and regulations, including in particular those relating to tax, may be unclear and Polish laws and regulations may change

PZU has been established and operates under Polish law. The Polish legal system is based on statutory law enacted by the Polish Parliament. A significant number of regulations relating to the issue of and trading in securities, shareholders' rights, foreign investments, corporate operation and corporate governance, commerce, taxes and business activity have been or may be changed. These regulations are subject to different interpretations and may be interpreted in an inconsistent manner. Moreover not all court decisions are published in official journals and generally they are not binding in other cases and are thus of limited importance as legal precedents.

The Polish tax system is also subject to frequent changes. Some provisions of Polish tax law are ambiguous and often there is no unanimous or uniform interpretation of law or uniform practice by the tax authorities. Because of different interpretations of Polish tax law, the risk connected with Polish tax law may be greater than that under other tax jurisdictions in more developed markets.

The Guarantor cannot provide assurance that its interpretation of Polish laws and regulations, including tax laws and regulations, will not be challenged and any successful challenge could result in fines, penalties or increased tax assessment or could require the Guarantor to modify its practices in a manner that negatively affects its business.

The impact of anti-monopoly and pro-consumer actions may negatively impact the Group

The Group's business must comply with regulations regarding competition and consumer protection. The President of the Office of Consumer and Competition Protection (*Urząd Ochrony Konkurencji i Konsumentów*, the **OCCP**) may come to the conclusion that a particular action of a business entity constitutes a prohibited action that restricts competition and is an abuse of market position or breach of common consumer interests. It may prohibit any such practices or apply other sanctions provided by European or Polish anti-monopoly legislation, which may adversely affect the business, financial condition and results of operations of the Group.

Consumer actions, including class actions, against certain life insurance companies in Poland relating to long-term unit-linked contracts with high liquidation fees may influence the President of the OCCP's and KNF's approach to the insurance sector and result in changes in the law which could negatively impact the Group's profits in the future.

Proposals for future accounting under IFRS may cause higher capital costs and pressure on share prices

Currently, the Group accounts for insurance contracts in its consolidated financial statements in accordance with IFRS. The International Accounting Standards Board has announced the issue of a revised draft IFRS for insurance contracts. The final standard is expected to be published in 2016 or later. It is also expected that insurance companies will have a preparatory period of at least three years, which means the standard is unlikely to come into effect before 1 January 2018. Based on present information, the introduction of the new standard may lead to substantial changes in the existing presentation, recognition and measurement methods for insurance contracts and may require significant and expensive changes to existing IT systems and work processes. Moreover, the envisaged changes in accounting may negatively affect certain existing products and could increase prices in direct insurance and reinsurance.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE NOTES

The Issuer is a financing entity

The Issuer is a financing entity duly incorporated and validly existing under the laws of the Kingdom of Sweden, having full power and capacity to own or lease its property and assets and to conduct its business as described in the Prospectus. The Issuer has full power and capacity to execute, enter into and to perform its respective obligations.

The object of the Issuer's business is conducting financial activities primarily through the borrowing of funds by way of issuance of notes, bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit facilities and loans, and conducting any other activities compatible therewith or to provide any related services. The Issuer shall not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority.

The Issuer generally intends to have no business operations other than entering into financing arrangements (including the issuance of the Notes), lending of the proceeds to group companies including the Guarantor and entering into certain ancillary arrangements. The Issuer's assets will consist mainly of the Guarantor's and other group companies' obligations to repay any amounts lent to them. Therefore, the Issuer is subject to all risks to which the Guarantor and the Issuer's capital group are subject, to the extent that such risks could limit the Guarantor's ability to repay any amounts lent to it by the Issuer and to satisfy, in full and on a timely basis, its obligations under or in connection with the Guarantee.

The Issuer's centre of main interest is in the Kingdom of Sweden

The Issuer has its registered office in the Kingdom of Sweden. As a result there is a rebuttable presumption that its centre of main interest (“**COMI**”) is in the Kingdom of Sweden and consequently that any main insolvency proceedings applicable to it would be governed by Swedish law. In the recent decision by the European Court of Justice in relation to Eurofood IFSC Limited, the European Court of Justice restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on insolvency proceedings that the place of a company's registered office is presumed to be the company's COMI and that the presumption can only be rebutted if factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect. As the Issuer has its registered office in the Kingdom of Sweden, has a Swedish director, is registered for tax in the Kingdom of Sweden and has a Swedish corporate services provider, the Issuer and the Guarantor do not believe that factors exist that would rebut this presumption, however, there can be no assurance a Court would agree with this presumption.

RISKS RELATING TO THE NOTES

New safekeeping structure

The Issuer intends that the Notes will be registered on issue in the name of a nominee for Euroclear or Clearstream, Luxembourg (as defined below) as common safekeeper. This does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

The structure of the Notes

Redemption prior to maturity for taxation reasons

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of Sweden or Poland, as the case may be, or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes. In such case, it may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

The conditions of the Notes contain provisions which may permit their modification without the consent of all investors

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of the Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not. The Fiscal Agent may also agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter, see Condition 15.

The EU Savings Directive may result in certain holders not receiving the full amount of interest

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of

other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. The Amending Directive requires EU Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in an EU Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

Investors who purchase Notes in denominations that are not an integral multiple of €100,000 may be adversely affected if Definitive Note Certificates are subsequently required to be issued

The Notes have denominations consisting of a minimum of €100,000 or its equivalent plus one or more higher integral multiples of €1,000 or its equivalent. It is possible that the Notes may be traded in amounts that are not integral multiples of €100,000 or its equivalent. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 or its equivalent in his account with the relevant clearing system at the relevant time may not receive a Definitive Note Certificate in respect of such holding (should Definitive Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to €100,000 or its equivalent.

If Definitive Note Certificates are issued, holders should be aware that Definitive Note Certificates which have a denomination that is not an integral multiple of €100,000 or its equivalent may be illiquid and difficult to trade.

RISKS RELATING TO THE MARKET GENERALLY

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the

value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Investors to rely on the procedures of Euroclear and Clearstream, Luxembourg for transfer, payment and communication with the Issuer

The Notes may be represented by one or more Certificates. The Notes will initially be represented by the Global Certificate which will be issued and delivered to a nominee for a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive individual Note Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear or Clearstream, Luxembourg.

While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligation under the Notes by making payments to the common safekeeper for Euroclear and Clearstream, Luxembourg. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued):

The EUR 350,000,000 1.375 per cent. Guaranteed Notes due July 2019 (the “**New Notes**” (to be consolidated and form a single series with the EUR 500,000,000 1.375 per cent. Notes due July 2019 issued on 3 July 2014 (the “**Original Notes**” and together with the New Notes, the “**Notes**”) which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of PZU Finance AB (publ) (the “**Issuer**”) are (a) subject to, and have the benefit of, a deed of covenant dated 3 July 2014 (as amended or supplemented from time to time, the “**Deed of Covenant**”) of the Issuer, (b) have the benefit of a deed of guarantee of Powszechny Zakład Ubezpieczeń S.A., (the “**Guarantor**”) dated 3 July 2014 (the “**Deed of Guarantee**”) and (c) are the subject of a fiscal agency agreement dated 3 July 2014 as supplemented by a supplemental agency agreement dated 16 October 2015 (as further amended or supplemented from time to time, the “**Fiscal Agency Agreement**”) between the Issuer, the Guarantor, Deutsche Bank AG, London Branch as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Fiscal Agent, the “**Agents**”, which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and Deutsche Bank Luxembourg S.A., in its capacity as Registrar (the “**Registrar**”, which expression shall include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to “**Conditions**” are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. **Form, Denomination and Title**

- (a) ***Form and denomination.*** *The Notes are in registered form, serially numbered.*

The Notes are issued in minimum denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof (each, an “**Authorised Holding**”).

- (b) ***Title.*** Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Certificate representing it by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, “**Noteholder**” or “**holder**”

means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and “**holders**” shall be construed accordingly.

*A certificate in definitive form (a “**Definitive Note Certificate**”) will be issued to each Noteholder in respect of its registered holding.*

*The Notes are intended to be issued under the new safekeeping structure and will be represented by a global note certificate (the “**Global Note Certificate**”, and together with the Definitive Note Certificates, the “**Certificates**”), interests in which will be exchangeable for Definitive Note Certificates in the circumstances specified in the Global Note Certificate. The Global Note Certificate will be deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).*

- (c) **Third party rights.** No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. **Registration**

The Issuer will cause a register (the “**Register**”) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. **Transfer of Notes**

- (a) **Transfer.** Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

- (b) **Formalities Free of Charge.** Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

- (c) **Closed Periods.** Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.
- (d) **Business Day.** In these Conditions, “**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in both a day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET) System (the “**TARGET System**”) of any successor system is open and the city in which the Specified Office of the Registrar or, as the case may be, the Principal Paying and Transfer Agent is located.
- (e) **Regulations Concerning Transfer and Registration.** All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar (such approval not to be unreasonably withheld or delayed).
- (f) **Authorised Holdings.** No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

4. Status and Guarantee

- (a) The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) The Guarantor has, in the Deed of Guarantee, unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The guarantee (the “**Guarantee**”) constitutes a direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligation of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) neither the Issuer nor the Guarantor shall, and the Guarantor shall procure that none of its Material Subsidiaries shall, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or any guarantee of any Relevant Indebtedness without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of Noteholders.

6. Definitions

For the purposes of these Conditions:

“**Group**” means the Guarantor and its consolidated Subsidiaries from time to time taken as a whole and a member of the Group means the Guarantor or any of its consolidated Subsidiaries from time to time;

“**Indebtedness for Borrowed Money**” means any indebtedness of any Person for or in respect of:

- (a) moneys borrowed;
- (b) amounts raised by acceptance under any acceptance credit facility;
- (c) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments;
- (d) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with International Financial Reporting Standards, be treated as finance or capital leases;
- (e) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service;
- (f) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a “**with recourse**” basis) having the commercial effect of a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account); and
- (h) any counter indemnity obligation in respect of any guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution.

the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above;

“**Material Subsidiary**” means at any relevant time a subsidiary of the Guarantor:

- (a) whose consolidated total assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 per cent. of the total consolidated assets of the Guarantor, or whose gross consolidated revenues (excluding intercompany revenues) or operating income represent not less than 10 per cent. of the consolidated gross premiums or consolidated technical reserves of the Guarantor, (determined by reference to the most recent publicly available annual or interim financial statements of the Guarantor prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS); or
- (b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

provided that if a Subsidiary has been acquired since the date as at which the latest audited consolidated financial statements of the Group were prepared, the financial statements shall be adjusted in order to take into account the acquisition of that Subsidiary (that adjustment being certified by the Group's auditor as representing an accurate reflection of the revised consolidated gross premiums or consolidated technical reserves or consolidated total assets (as the case may be) of the Group), provided, however, that if there is a dispute, unresolved for a period of at least 30 days, as to whether or not a member of the Group is a Material Subsidiary, a certificate of the Group's auditor as to whether a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Permitted Restructuring” means:

- (i) any disposal by any Material Subsidiary (other than the Issuer) of all or any part of its business, undertaking or assets, on an arm's length basis, to the Guarantor or any other (directly or indirectly) wholly owned Subsidiary of the Guarantor;
- (ii) any solvent amalgamation, consolidation or merger of a Material Subsidiary (other than the Issuer) with the Guarantor or any other (directly or indirectly) wholly owned Subsidiary of the Guarantor; or
- (iii) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution.

“Relevant Indebtedness” means any present or future indebtedness (whether being principal, premium or other amounts) which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over the counter market) (and includes for the purposes of these Conditions any guarantee or indemnity in respect of any such indebtedness or any arrangement having a similar effect);

“Security Interest” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

“Subsidiary” means, in relation to any Person (the **“first Person”**) at any particular time, any other Person (the **“second Person”**): (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or (ii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person.

7. Interest

- (a) **Interest Accrual.** Each Original Note bears interest from 3 July 2014 (the **Original Issue Date**) and each New Note bears interest from 16 October 2015 (the **“New Issue Date”**) in each case at the rate of 1.375 per cent. per annum payable annually in arrear on 3 July in each year (each, an **“Interest Payment Date”**), subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) any Interest Payment Date, or, as the case may be, the Original Issue Date or the New Issue Date, and ending on (but excluding) the next Interest Payment Date is herein called an **“Interest Period”**.

- (b) **Cessation of Interest.** Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (*Notices*).
- (c) **Calculation of Interest.** Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period, the day count fraction applied to calculate the amount of interest payable in respect of each Note shall be the number of days in the relevant period from (and including) the date from which interest begins to accrue to (but excluding) the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest*) by the Principal Paying and Transfer Agent shall, in the absence of manifest and proven error, be binding on all parties.

8. Payments

- (a) **Principal.** Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.
- (b) **Interest and other Amounts.** Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (c) **Record Date.** “Record Date” means the fifteenth day before the due date for the relevant payment.
- (d) **Payments.** Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest and other Amounts*) will be made by Euro cheque drawn on a branch of a bank in the principal financial centre of any member state of the European Union mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a Euro account maintained by the payee with a bank in the principal financial centre of any member state of the European Union.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a Euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

- (e) **Agents.** The names of the initial Paying and Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer and the Guarantor reserve the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of/remove any Agent or the Registrar and to appoint successor or additional Agents or another Registrar, provided that it will at all times maintain:
- (i) a Fiscal Agent;
 - (ii) a Paying and Transfer Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive;
 - (iii) a Paying and Transfer Agent in a jurisdiction other than the Kingdom of Sweden ("**Sweden**") or the Republic of Poland ("**Poland**"); and
 - (iv) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

- (f) **Payments subject to Fiscal Laws.** All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (g) **Delay in Payment.** Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.
- (h) **Business Days.** In this Condition, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in a day on which the TARGET System is open and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. Redemption and Purchase

- (a) **Scheduled redemption.** Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 3 July 2019, subject as provided in Condition 8 (*Payments*).
- (b) **Redemption for Taxation Reasons.** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer:
 - (i) has become or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) or the Guarantor would be unable for reasons outside its control to procure that the Issuer is able to make payment itself or (if a demand was made under the Guarantee) would be required to pay additional amounts, in each case obliged to pay such additional amounts or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 10 (*Taxation*) or pursuant to the Guarantee (as the case may be) from any amount paid by it to the Issuer in order to enable the Issuer to make a payment under the Notes, in each case as a result of any change in, or amendment to, the laws or regulations of Sweden or Poland, as the case may be, or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1 July 2014; and
 - (ii) cannot avoid such obligation by the Issuer (or, as the case may be, the Guarantor) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

- (c) **Redemption at the option of the Noteholders (Put Option).** If a Change of Control Event (as defined below) occurs, the Issuer shall, at the option of the holder of any Note, upon the holder of such Note giving notice to the Issuer as provided in this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*) at any time during the Redemption Period, redeem such Note on the Redemption Date at 100 per cent. of its principal amount together (if applicable) with interest accrued and unpaid to (but excluding) the Redemption Date.

Immediately upon the Issuer becoming aware that a Change of Control Event has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Change of Control Event and the procedure for exercising the put option contained in this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*).

To exercise the put option pursuant to this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*), a holder must deposit the certificate representing the Note(s) to be redeemed with the Registrar or any Paying and Transfer Agent at its specified office, together with a duly completed option exercise notice (“**Exercise Notice**”) in the form obtainable from any Paying and Transfer Agent or the Registrar within the Redemption Period. An Exercise Notice, once given, shall be irrevocable.

If 90 per cent. or more in principal amount of the Notes then outstanding has been redeemed pursuant to this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*), the Issuer may, on not less than 30 or more than 60 days’ notice to the Noteholders given within 30 days after the Redemption Date, redeem, at its option, the remaining Notes as a whole at their principal amount, together with interest accrued and unpaid to (but excluding) the date of such redemption. Such notice to the Noteholders shall specify the date fixed for redemption, the redemption price and the manner in which redemption will be effected.

For the purpose of this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*):

- (i) a “**Change of Control Event**” will occur if
 - (A) at any time any shareholder who, on the Issue Date, holds more than 35 per cent. of the issued share capital of the Guarantor (a “**Major Shareholder**”) ceases to own, directly or indirectly, more than 25 per cent. of the issued share capital of the Guarantor or otherwise ceases to control, directly or indirectly, the Guarantor (each a “**Change of Control**”); and
 - (B) during the Change of Control Period, the Notes carry from any of Standard & Poor's Credit Market Services Europe Limited, Moody's Investors Service Limited, or Fitch Polska S.A., or any of their respective successors (each a “**Rating Agency**”) either:
 - (1) an investment grade credit rating (BBB-/Baa3, or equivalent, or better), and such rating from any Rating Agency is within the Change of Control Period either (x) downgraded by two notches (for illustration, Ba1 to Ba2 being one notch) where the resulting rating is an investment grade credit rating, (y) downgraded to a non-investment grade credit rating (BB+/Ba1, or equivalent, or worse) or (z) withdrawn;
 - (2) a non-investment grade credit rating (BB+/Ba1, or equivalent, or worse), and such rating from any Rating Agency is within the Change of Control Period downgraded by one or more notches (for illustration, Ba1 to Ba2 being one notch) or withdrawn; or
 - (3) no credit rating, and no Rating Agency assigns within the Change of Control Period an investment grade credit rating to the Notes; and

in making the relevant decision(s) referred to above, the relevant Rating Agency announces publicly or confirms in writing to the Issuer or the Guarantor that such decision(s), directly or indirectly,

resulted, in whole or in part, from the occurrence of the Change of Control or the public notice of an arrangement that could result in a Change of Control;

- (ii) **“Change of Control Period”** means the period commencing on the earlier of (a) the date of the Relevant Potential Change of Control Announcement, and (b) the Change of Control, and ending 90 days after the Change of Control;
 - (iii) a Major Shareholder will be deemed to **“control”** the Guarantor if (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) it has the power to appoint and/or remove the majority of the members of the supervisory board or other governing body of the Guarantor;
 - (iv) **“Redemption Date”** means, in respect of any Note, the date which falls 14 days after the date on which the relevant holder exercises its option in accordance with this Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*);
 - (v) **“Redemption Period”** means the period from and including the date on which a Change of Control Event occurs (whether or not the Issuer has given a Change of Control Notice in respect of such event) to and including the date falling 90 days after the date on which such Change of Control Notice is given, provided that if no Change of Control Notice is given, the Redemption Period shall not terminate; and
 - (vi) **“Relevant Potential Change of Control Announcement”** means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where, within 180 days of the date of such announcement or statement, a Change of Control occurs.
- (d) **Purchase.** The Issuer and the Guarantor or any of their respective Subsidiaries may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*). Any purchase by tender shall be made available to all Noteholders alike.
- (e) **Cancellation of Notes.** All Notes which are redeemed pursuant to Conditions 9(b) (*Redemption for Taxation Reasons*) and 9(c) (*Redemption at the option of the Noteholders (Put Option)*) or submitted for cancellation pursuant to Condition 9(d) (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of such exchange so require, the Issuer shall promptly inform the Irish Stock Exchange of the cancellation of any Notes under this Condition 9(e) (*Cancellation of Notes*).

10. Taxation

- (a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Sweden or Poland or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:
- (i) **Other Connection:** presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Sweden or, in the case of payments made by the Guarantor, Poland other than the mere holding of the Note;
 - (ii) **Presentation more than 30 days after the Relevant Date:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;
 - (iii) **Payment to Individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
 - (iv) **Payment by another Paying and Transfer Agent:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying and Transfer Agent in a Member State of the European Union; or
 - (v) **Payment in Sweden or Poland:** where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in Sweden or Poland.
- (b) **Taxing jurisdiction.** If the Issuer or, as the case may be, the Guarantor become subject at any time to any taxing jurisdiction other than Sweden or Poland, respectively, references in this Condition 10 (*Taxation*) to Sweden or Poland, respectively shall be construed as references to Sweden or Poland, respectively and/or such other jurisdiction.

“**Relevant Date**” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference

in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Fiscal Agency Agreement.

11. Prescription

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. Events Of Default

If any of the following events (“**Events of Default**”) shall have occurred, and is continuing:

- (a) **Non payment.** The Issuer or the Guarantor, as the case may be, fails to pay any amount of principal in respect of the Notes or Guarantee on the due date for payment when the same becomes due and payable either at maturity, by declaration or otherwise, or the Issuer or the Guarantor, as the case may be, is in default with respect to the payment of interest or any additional amount payable in respect of any of the Notes and such default in respect of interest or additional amounts continues for a period of seven days; or
- (b) **Breach of other obligations.** The Issuer or the Guarantor, as the case may be, defaults in the performance or observance of any of its other obligations under the Notes or Guarantee and such default is incapable of remedy or, if capable of remedy, remains unremedied for 30 days after notice of such default has been given to the Issuer and the Guarantor at the Specified Office of the Fiscal Agent by any holder of Notes; or
- (c) **Cross default**
 - (i) Any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
 - (ii) any such Indebtedness for Borrowed Money becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness for Borrowed Money; or
 - (iii) the Issuer, the Guarantor or any of the Guarantor’s Material Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Indebtedness for Borrowed Money (including any indemnity of such Indebtedness for Borrowed Money or any arrangement having a similar effect),

provided that the amount of Indebtedness for Borrowed Money referred to in Conditions 12(c)(i) and/or 12(c)(ii) above and/or the amount payable under any guarantee referred to in Condition 12(c)(iii) above individually or in the aggregate exceeds EUR25,000,000 (or its equivalent in any other currency or currencies);

- (d) **Bankruptcy**

- (i) The occurrence of any of the following events: (i) any of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation; or (ii) the presentation or filing of a petition in respect of any of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries in any court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries, unless the petition is withdrawn or dismissed within 30 days of such presentation or filing; or (iii) the announcement by an appropriate court in Poland of the insolvency (*upadłość*) of any of the Guarantor or any of its Material Subsidiaries pursuant to the Polish Bankruptcy and Recovery Law dated 28 February 2003 or any other laws or regulations that may replace the above; and/or (iv) any declaration of liquidation of the Guarantor or any of its Material Subsidiaries pursuant to the Polish Banking Law dated 29 August 1997, or any other laws or regulations which may replace the above; or
- (ii) (A) The Issuer, the Guarantor or any of its Material Subsidiaries is unable or admits its inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling a material part of its Indebtedness for Borrowed Money; (B) the value of the assets of any of the Guarantor or its Material Subsidiaries is less than its liabilities; and/or (C) a moratorium is declared in respect of any Indebtedness for Borrowed Money of any of the Issuer, the Guarantor or its Material Subsidiaries; or
- (iii) Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, or a receiver, manager or other similar officer is appointed in respect of, the whole or a substantial part of, the undertaking, revenues or assets of the Issuer, the Guarantor or any of the Guarantor's Material Subsidiaries unless the levy against such undertaking, revenues or assets is discharged or dismissed within 30 days; or
- (iv) Any event occurs which under the laws of Sweden or Poland has an analogous effect to any of the events referred to in Conditions 12(d)(i), (ii) or (iii) above; or

(e) *Invalidity or unenforceability*

- (i) Any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, (B) to ensure that those obligations are legal, binding and enforceable and (C) to make the Definitive Note Certificates admissible as evidence in the courts of Sweden and Poland is not taken, fulfilled or done; or
- (ii) It is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes; or
- (iii) The Deed of Covenant is not (or is claimed by the Issuer or the Guarantor not to be) in full force and effect; or

- (iv) The Deed of Guarantee of the Notes is not (or is claimed by the Issuer or the Guarantor not to be) in full force and effect; or
- (f) **Cessation of Business.** The Guarantor or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business, save for the purposes of a Permitted Restructuring; or
- (g) **Maintenance of Business.** The Guarantor fails to take any action as is required of it under applicable insurance regulations in Poland or otherwise to maintain in effect (i) the licences held by it and any of its Material Subsidiaries granted by the Polish Financial Supervisory Authority (*Komisja Nadzoru Finansowego*) in relation to the provision of both life and non-life insurance products, or (ii) its corporate existence, or fails to take any action to maintain any rights, privileges, titles to property, franchises and the like necessary for the continuation of its business, activities or operations and such failure is not remedied within 30 days after notice thereof has been given to the Guarantor,

then the holders of 25 per cent. or more in the aggregate principal amount of the Notes may, by written notice to the Issuer at the specified office of the Fiscal Agent, declare the Notes due and payable immediately whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. Upon any declaration of acceleration, the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives written notice of the declaration. No delay or omission of any Noteholder or any party to the Agency Agreement to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any other breach of the Issuer's obligations under the Agency Agreement.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

13. Replacement Of Notes

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. Meetings Of Noteholders; Modification

- (a) **Meetings of Noteholders.** The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer, the Guarantor or by the Noteholders holding not less than one tenth in principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; provided, however, that any proposals relating to any Reserved Matter (as defined below) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.
- (b) **Reserved Matters.** In these Conditions, “**Reserved Matter**” means any proposal whereby:
- (i) the principal amount of, or interest on, or other amounts in respect of the Notes is to be reduced or cancelled or the rate of interest on the Notes is to be reduced;
 - (ii) the status of the Notes under Condition 4 (*Status and Guarantee*) is to be amended;
 - (iii) the Events of Default set out in Condition 12 (*Events Of Default*) are to be amended;
 - (iv) the currency of payment of the Notes or the due date or date for any payment in respect of the Notes is to be changed;
 - (v) the provisions contained in Schedule 4 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or the definition of “Extraordinary Resolution” or the definition of “outstanding” is to be modified;
 - (vi) this definition of Reserved Matter is to be amended;
 - (vii) the Deed of Covenant is to be modified or cancelled; or
 - (viii) the Deed of Guarantee is to be modified or cancelled.
- (c) **Written resolution.** A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Fiscal Agency Agreement or (ii) if such Noteholders have been given at least 21 days’ notice of such resolution, by or on behalf of persons holding three quarters of

the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (d) ***Modification without Noteholders' consent.*** The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in its opinion of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter.

15. Notices

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Irish Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in Ireland (which is expected to be the Irish Times) or, if, in the opinion of the Fiscal Agent, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

So long as any of the Notes are represented by the Global Note Certificate, notices required to be published in accordance with Condition 15 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders.

16. Further Issues

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes (“**Further Notes**”).

17. Currency Indemnity

The Fiscal Agency Agreement provides that if any Noteholder receives or recovers any amount in a currency other than the Contractual Currency (as defined in the Fiscal Agency Agreement) (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding up or dissolution of the Issuer or the Guarantor or otherwise), in respect of any sum expressed to be due to it from the Issuer or the Guarantor that amount will only discharge the Issuer and the Guarantor to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder under the Notes, the Issuer failing whom the Guarantor will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer or Guarantor, as the case may be, and delivered to the Issuer or Guarantor, as the case may be, or to the Specified Office of the

Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer failing whom the Guarantor will indemnify the relevant Noteholder against the cost of making any such purchase.

18. Governing Law And Jurisdiction

18.1 Governing Law

These Notes, including any non-contractual obligations arising out of or in connection with them, are governed by, and shall be construed in accordance with, English law.

18.2 Jurisdiction

Each of the Issuer and the Guarantor agrees for the benefit of each of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Agreement (including any non-contractual obligations arising out of or in connection with this Agreement) (“**Proceedings**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by Noteholders in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

18.3 Appropriate Forum

For the purpose of Condition 18.2 (*Jurisdiction*), the Issuer and the Guarantor each irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

18.4 Service of Process

Each of the Issuer and the Guarantor agrees that the process by which any Proceedings are commenced in England pursuant to Condition 18.2 (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor, the Issuer or the Guarantor, as the case may be, shall, on the written demand of the Noteholders, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 14 days, the Noteholders shall be entitled to appoint such a person by written notice to the Issuer or the Guarantor, as the case may be. Nothing in this paragraph shall affect the right of the Noteholders to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

1. Global Note Certificates

The Notes will be evidenced on issue by the Global Note Certificate (deposited with, and registered in the name of a nominee for, a common safekeeper for Euroclear and Clearstream, Luxembourg (together, the “**Clearing Systems**”).

Interests in the Global Note Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See “– *Book-Entry Procedures*”.

Except in the limited circumstances described below, owners of interests in the Global Note Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Note Certificates**”). The Notes are not issuable in bearer form.

2. Amendments to the Conditions

The Global Note Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments. Payments of principal and interest in respect of Notes evidenced by the Global Note Certificate will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. While the Global Note Certificate is held by the Common Safekeeper for the Clearing Systems payments will be made in accordance with the procedures of the Clearing System through which interests in the Global Note Certificate are held.

Notices. So long as any Notes are represented by the Global Note Certificate and the Global Note Certificate is held on behalf of one or more Clearing Systems, notices to Noteholders required to be published in the *Irish Times* may be given by delivery of the relevant notice to such Clearing Systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Notes.

Meetings. The holder of the Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each EUR 1,000 in principal amount of Notes for which the Global Note Certificate may be exchangeable.

Prescription. Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 11 (*Prescription*) of the Notes).

Put Option. The Noteholders’ put option in Condition 9(c) (*Redemption at the option of the Noteholders (Put Option)*) of the Notes may be exercised by giving notice to the Principal

Paying and Transfer Agent in accordance with procedures of the relevant Clearing System through which such Noteholder's Notes are held.

Purchase and Cancellation. Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Note Certificate.

Record Date. As long as the Notes are represented by a Global Note Certificate, payments of interest and principal on the Notes will be paid to the holder shown on the Register on the Clearing System Business Day before the due date for such payment in accordance with the rules and procedures of the Clearing System (the "**Record Date**"), where "**Clearing System Business Day**" means a day on which each Clearing System in which the Global Note Certificate is being held is open for business.

3. **Exchange for and Transfers of Definitive Note Certificates**

The Global Note Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or an Event of Default (as defined in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, the Issuer or the Guarantor will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant event and that such Definitive Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing.

In such circumstances, the Global Note Certificate shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in the Global Note Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer, the Guarantor and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note Certificate for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

4. **Book-Entry Procedures**

Custodial and safekeeper links are expected to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See "*Book-Entry Ownership*" and "*Settlement and Transfer of Interests in Notes held in the Clearing Systems*" below.

Investors may hold their interests in the Global Note Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

5. Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

6. Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

A Global Note Certificate representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common safekeeper on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

7. Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by the Global Note Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer, or the Guarantor, as the case may be, to the holder of the Global Note Certificate and in relation to all other rights arising under the Global Note Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by the Global Note Certificate, the common safekeeper by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Note Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in the Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer, or the Guarantor, as the case may be, in respect of payments due on the Notes for so long as the Notes are evidenced by the Global Note Certificate and the obligations of the Issuer, or the Guarantor, as the case may be, will be discharged by payment to the registered holder, as the case may be, of the Global Note Certificate in respect of each amount so paid. None of the Issuer, the Guarantor, or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

8. Settlement and Transfer of Interests in Notes held in the Clearing Systems

Subject to the rules and procedures of the applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the Clearing System will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in the Global Note Certificate are exchanged for Definitive Note Certificates.

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited.

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

USE OF PROCEEDS

The net proceeds of the issue of the New Notes, after deduction of the total expenses related to the admission to trading, will be used for the Group's general corporate purposes.

THE ISSUER

GENERAL

PZU Finance AB (publ) (the “**Issuer**”) was incorporated as Goldcup 9812 AB, a public limited liability company under the Swedish Companies Act (2005:551) (Sw: *aktiebolagslagen*), on 28 May 2014, with registration number 556972-9832. Its change of name from Goldcup 9812 AB to PZU Finance AB (publ) was registered on 16 June 2014. It is domiciled in the Kingdom of Sweden. The registered office of the Issuer is located at Sveavägen 9, 10th floor, SE – 111 57 Stockholm, Sweden and the telephone number of its registered office is +46 8 402 72 00. The Issuer conducts its activity in accordance with the Swedish Companies Act of 2005:551.

OBJECTS

The objects of the Issuer are set out in Article 3 of its Articles of Association, which states that "the object of the company's business shall be to conduct financial activities primarily through the borrowing of funds by way of issuance of notes, bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit facilities and loans, and to conduct any other activities compatible therewith or to provide any related services. The company shall not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority".

CAPITAL STOCK

As of the date of this Prospectus, the Issuer is a wholly-owned subsidiary of the Guarantor. The Issuer has no subsidiaries.

The share capital of the Issuer shall not be less than EUR 52,772.68 and not more than EUR 211,090.72 (divided into not less than 500,000 and not more than 2,000,000 fully paid-up ordinary shares).

MANAGEMENT

The Issuer has a Board of Directors consisting of three members: Agnieszka Karbowskiak, Mariusz Porebski and Iren Falsafi. Their business address is c/o PZU Finance AB (publ), Sveavägen 9, 10th floor, SE – 111 57 Stockholm, Sweden. The Board of Directors is responsible for managing the business of the Issuer in accordance with Swedish law and the Issuer's Articles of Association. The Board of Directors also represents the Issuer in its dealings with third parties and in court.

There are no potential conflicts of interest between any duties of the directors to the Issuer, and their private interests and/or other duties.

Administrative and corporate tasks will be performed by the employees of Issuer and by a corporate service provider.

OPERATIONS

On 3 July 2014, the Issuer issued EUR 500,000,000 1.375 per cent. Guaranteed Notes due 2019. These notes are listed on the Irish Stock Exchange and are also quoted on the Alternative Trading System on Warsaw Stock Exchange and BondSpot. They benefit from a guarantee provided by PZU.

On 7 July 2014, the Issuer granted a five-year loan to PZU. Interest of 1.425 per cent is paid annually with the first payment having been made on 29 June 2015.

DESCRIPTION OF THE GROUP

INTRODUCTION

The Group is the largest insurance company in Poland and one of the largest insurance companies in Central and Eastern Europe in terms of gross written premiums.¹ Based on the Management Board's assessment, the Group had approximately 16 million customers in Poland as at 31 December 2014. For the year ended 31 December 2014 the Group's gross written premiums amounted to PLN 16.9 billion and its operating profit was PLN 3.9 billion. As of 31 December 2014 the Group's total assets were PLN 67.6 billion, it had cash and cash equivalents of PLN 324 million and a Solvency I ratio of 291.2 per cent.

The Group operates four main lines of business:

- non-life insurance, principally offered by PZU and Link4 in Poland, which generated 49.8 per cent of the Group's total gross written premium, and 24.9 per cent of its operating profit, in the year 2014. According to KNF, PZU's share of the Polish non-life insurance market (measured in terms of gross written premiums) was 33.1 per cent in 2014;
- life insurance, principally offered by Powszechny Zakład Ubezpieczeń na Życie S.A. ("**PZU Życie**") in Poland, which generated 46.2 per cent of the Group's gross written premium, and 49.2 per cent of its operating profit, in 2014. According to KNF, PZU Życie's share of the Polish life insurance market in terms of regular premium was 42.8 per cent in 2014;
- asset management, mainly offered by Towarzystwo Funduszy Inwestycyjnych PZU S.A. ("**TFI PZU**"), including (i) participation units in open-end investment funds, (ii) investment certificates in closed-end investment funds; (iii) investment plans; and (iv) employee pension schemes and individual pension accounts, which according to Analizy Online market analysis as at 31 December 2014 maintained the leading position in the investment funds market with a share of 12.2 per cent and net assets under management of PLN 25.5 billion; and
- open-ended pension funds, offered by Powszechne Towarzystwo Emerytalne PZU S.A. ("**PTE PZU**"), which is the manager of Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("**OFE PZU**"), which, according to the KNF is the third largest open pension fund in Poland both in terms of its members (2.2 million) and net assets under management (PLN 19.6 billion at 31 December 2014). In 2014, PTE PZU generated an operating profit of PLN 203 million, which represented 5.2 per cent of the Group's operating profit for that year.

The Group's insurance operations in Poland generated 95.8 per cent of its gross written premiums in 2014 and accounted for 74.1 per cent of its operating profit at 31 December 2014. The Group also conducts insurance business in the Baltic States (Lithuania, Latvia, Estonia) and Ukraine, but these businesses did not make a material contribution to the results of the Group in 2014.

In 2014, PZU made acquisitions of insurance entities in the Baltic region and, as a consequence, the Group increased its share of gross written premiums from foreign operations from 4.2 per cent in 2014 to 7.5 per cent in the first half of 2015.

As at the date of this Prospectus, PZU and PZU Życie each have an "A" financial strength rating and counterparty credit rating from Standard & Poor's, with a stable outlook for both companies. This is the highest rating available to Polish companies and PZU and PZU Życie are the only Polish financial institutions with this rating.

¹ Based on analysis of the audited financial statements of certain other European insurers and their segment information.

PZU is the parent company of the Group. PZU is a joint-stock company and its shares are traded on the Warsaw Stock Exchange (the “**WSE**”). It is established under the Act dated 28 July 1990 on Insurance Activity (*Ustawa z dnia 28 lipca 1990 r. o działalności ubezpieczeniowej*) for an indefinite period. Its National Court Register registration number is 0000009831 and its registered office is in Warsaw at al. Jana Pawła II 24, 00-133 Warsaw, Poland. Its telephone number is +48 22 582 26 23.

HISTORY

Polska Dyrekcja Ubezpieczeń Wzajemnych, the legal predecessor of PZU, was established in the 1920s as the first nationwide insurance institution in Poland. Following the collapse of Communism a new legal framework for insurance companies was adopted and PZU commenced activities as a joint-stock company on 23 December 1991. PZU was entered into the commercial register on 27 December 1991.

On 18 December 1991, PZU, together with Polski Bank Rozwoju S.A. and Bank Handlowy Warszawie S.A., established PZU Życie and PZU transferred its life insurance portfolio to PZU Życie in return for a 99.99 per cent shareholding in the company. In 1998, PTE PZU, which is wholly-owned by PZU Życie, was established. PTE PZU is a corporate body and the manager of OFE PZU, which is an open-ended pension fund.

On 5 November 1999, PZU was privatised and, in 2010, 25,819,337 PZU shares were offered to the public in an initial public offering.

Since 2002, the Group has operated in Lithuania through the acquisition of non-life insurer UAB DK “Lindra” (currently UAB DK “PZU Lietuva” (“**PZU Lithuania**”)) and life insurer UAB “Lindra Gyvybes Draudimas” (currently UAB “PZU Lietuva Gyvybes Draudimas” (“**PZU Lithuania, Life**”)). In 2014, PZU acquired the market leading non-life insurer AB “Lietuvos Draudimas” (“**Lietuvos Draudimas**”). Following the purchase of Lietuvos Draudimas and to comply with anti-monopoly regulations, PZU is of disposing its of stake in PZU Lithuania.

In late 2012 and in mid-2013, PZU began selling insurance in Latvia and Estonia through subsidiaries of PZU Lietuva. In 2014 the Group increased its presence in these countries through the acquisition of the market leading non-life insurance - Apdrošināšanas Akciju Sabiedrība Balta (“**AAS Balta**”) AAS Balta (Latvia) and the branch - Codan Forsikring A/S (Estonia) (“**Codan**”).

The Group has been present in the Ukrainian insurance market since 2005 when it purchased shares in OJSC IC “Skide-West” (currently PrJSC IC PZU Ukraine (“**PZU Ukraine**”)) and PJSC IC “Skide-West-Life” (currently PrJSC IC PZU Ukraine Life Insurance (“**PZU Ukraine Life**”)).

In 2014, PZU acquired internet based Link4 Towarzystwo Ubezpieczeń S.A. (“**Link4**”), which is the market leading direct insurance provider in Poland.

STRATEGY

In January 2015, the Management Board of the Group adopted a new development strategy for 2015 to 2020 - the PZU 3.0 Strategy.

PZU 3.0 has three main strategic objectives:

- Insurance – PZU aims to raise its market share in non-life insurance products to a minimum of 35 per cent and aims to retain its life insurance market share of over 43 per cent.
- Asset Management – PZU aims to lead the investment fund market in Central and Eastern Europe.

- Healthcare – PZU aims to become the leading Polish healthcare provider and would like to achieve an annual revenue of at least PLN 650 million (including the written premium from health insurance) in this sector in 2020.

Areas of potential growth will be identified by focussing on distinct client groups, being retail clients, corporate clients and strategic partners (including banks), rather than by focussing on the product mix, as was the case previously.

The Group perceives its recent purchase of a substantial stake in Alior Bank S.A. as a first step towards expansion into the Polish banking industry and is currently looking for other possible purchases to take advantage of attractive valuations resulting from the current climate in the banking sector. It is not intended that potential acquisitions will include risks connected to Swiss France denominated portfolios. The Group would like to create an institution that is among the top banks in Poland with very good performance ratios.

The realisation of PZU's strategy will be based on the following principles:

Broad product offering

PZU intends to focus on expanding and improving its product offering. In particular, PZU intends to offer new, comprehensive products in individual insurance segments and to overhaul its life insurance products for individual customers, making all products clear and transparent. PZU also intends to increase its flexibility and reduce response times to competitors' pricing of motor insurance products. PZU plans to compete by offering high quality customer service and increasing client loyalty by building stronger relationships with clients through providing them with more assistance and increasing their involvement in the business.

Leveraging the well-developed distribution and customer service network

PZU has a very well developed distribution and customer service network. PZU intends to capitalise the universal profile of exclusive channels and intensify cooperation among the distribution channels with a narrower offer, tailored to clients' needs. The channels' function should be clear allowing focus on the most effective operations from the perspective of the channel and the client. PZU intends to introduce coherent visual identification and high service quality standards in every customer service point. PZU also intends allow clients to purchase the insurance products directly, through direct sales channels.

Using two brands to increase market share

PZU will use two brands in Poland, PZU and Link4, to increase market share and acquire new clients. Separate brands will be addressed to customers with different profiles and needs. The independence of Link4 will be preserved, but PZU intends to make use of synergies between the PZU's and Link4's distribution channels of PZU and Link4 and offer certain Link4 products through PZU distribution channels.

Introducing digital operating model

PZU intends to shift its operation to a digital model. The new operating model is expected to ensure flexibility in adapting the products to customer's needs and allow PZU to obtain a complete image of the client and its relations with the Group. PZU intends to eliminate paperwork from the client process and introduce digital systems supporting process management.

Ensuring employee professionalism and commitment

The Group intends to maintain its position as a preferred employer and create a results oriented organisational structure. To achieve this, the Group intends to introduce transparent procedures and innovative working tools as well as improving the internal communication system. The Group also intends

to offer employees more professional development opportunities and to continue to offer attractive compensation and benefit packages. The Group will also seek to realise initiatives suggested by employees.

Implementing a new investment policy

PZU intends to optimise its investment policy within a defined level of risk appetite see “*Investments*” below.

Maintaining a high return on equity

The Group’s principle financial objective is to maintain a high return on equity. According to the Capital and Dividend Policy issued in 2013, the Group will aim to:

- make dividend payments at 50 – 100 per cent of the Group's net profit;
- maintain the Solvency I margin of at least 250 per cent;
- maintain assets covering technical reserves of at least 110 per cent; and
- optimise the funding structure by issuing subordinated debt.

COMPETITIVE STRENGTHS

The main competitive strengths of the Group are:

Clear market leader in Poland with a significant presence in the Baltic States

The Group is the largest insurance group in Poland. According to the KNF, as of 31 December 2014, the Group's market share in regular premium life insurance (measured by gross premiums written during the year) was approximately 42.8 per cent and, in non-life insurance, it was approximately 33.1 per cent. In 2014, the Group’s gross written premium in the regular premium life insurance segment was more than four times that of its largest competitor and its gross written premium in the non-life insurance segment was approximately twice that of its largest competitor.

According to the Chamber of Fund and Asset Managers, as of 31 December 2014, TFI PZU was the leading asset manager in Poland with net assets under management of PLN 25.5 billion.

The Group is also developing its insurance business in selected countries of Central and Eastern Europe and currently has a presence in Lithuania, Latvia, Estonia and Ukraine. As at 31 December 2014, according to the Lithuanian central bank’s data, it had a leading position in the non-life insurance market in Lithuania through Lietuvos Draudimas with a 30.9 per cent market share. It also had the leading position in non-life insurance market in Latvia through AAS Balta with a 22.9 per cent market share. The Group is also the fourth largest non-life insurer in Estonia and, according to the State Commission for Regulation of Financial Services Markets of Ukraine, the ninth largest non-life insurer in Ukraine.

Resilient business model and scale

The Management Board estimates that the Group insures almost 50 per cent of the adult population in Poland. For example, as of 31 December 2014, PZU and PZU Życie served approximately 16 million customers. This large customer base gives the Group valuable insight into consumer preferences as well opportunities to cross-sell products and services to the Group's existing clients.

The Group's leading market position is also underpinned by its extensive multi-channel distribution and client service network. The Group's customers have access to the largest sales and service network among

Polish insurers which consists of: 413 own sales outlets with the PZU brand name, approximately 9,200 agents, the Group's employees, as well as banks and electronic distribution channels. In the group life insurance segment, distributed by approximately 500 full-time employees of PZU Życie, the Group maintains relationships with approximately 80,000 individuals in Poland who, pursuant to PZU Życie's general terms and conditions of group life insurance, administer the insurance products. The scale of the distribution network constitutes a unique benefit for clients and makes the client base more stable, particularly in the group life insurance segment. Additionally, the significant size of the distribution network provides a competitive advantage. This has been strengthened by the acquisition of Link4 and its direct distribution channel.

Furthermore, the Group benefits from one of the most recognised and historic brands in Poland. In 2014, the PZU brand was valued at more than PLN 2.3 billion, making it the second most valuable Polish brand among financial institutions according to the annual "Rzeczpospolita" ranking. This reflects the fact that the Group is considered to be a trusted provider of insurance products, as well as a stable and trustworthy financial institution.

Superior financial and operating performance

The Group has a track record of delivering robust profitability. In 2014 the Group reported net profit of PLN 3.0 billion and in 2013 of PLN 3.3 billion, and a return on equity of 22.6 per cent in 2014 and 24.1 per cent in 2013. PZU's return on equity averaged almost 21.9 per cent over the last five years, whereas its key competitors together averaged about 10 per cent.² The Management Board believes that PZU's high and stable profitability is evidence of the success of the Group's business model.

PZU's management believes that it has superior underwriting expertise due to the know-how of its employees, its unique database of approximately 16 million individual customers and its large number of SME and corporate customers. This allowed the Group to achieve a margin ratio of group and continued life insurance of 25.9 per cent as of 31 December 2014, compared to 23.0 per cent as of 31 December 2013. In the non-life insurance business, the Group's combined ratio was 95.7 per cent as of 31 December 2014 and 87.8 per cent as of 31 December 2013.

The Group also has a highly regarded claims handling process, with a satisfaction index in relation to claims handling that is 9.3 percentage points above its competitors, see "*Claims handling in Poland*" below. In 2014, PZU became the first Polish insurer to introduce its own fleet of replacement cars. By purchasing a fleet of 300 comfortable and modern hybrid vehicles, PZU set a high standard for replacement cars in the Polish market.

Sound financial and capital position

The Management Board believes that the strong financial position of PZU and PZU Życie constitutes an important competitive advantage for the Group. As of 31 December 2014, the Group's total equity amounted to PLN 13.2 billion. The Group's solvency ratios exceed the average level for European insurers, based on data provided by European Insurance and Occupational Pensions Authority. For example, as of 31 December 2014 and 31 December 2013, the Group's Solvency I ratio was 291.2 per cent and 351.8 per cent. Based on analysis of its key competitors' financial statements the Group has significant leverage capacity when compared to those competitors. The strong financial position provides a stable base for future development and utilisation of potential business opportunities.

BUSINESS

The Group's business principally comprises non-life insurance written by PZU and Link 4, life insurance written by PZU Życie, investment activities, insurance activities in the Baltic States and Ukraine and

² Based on an analysis of its key competitors' audited financial statements.

pensions. The Group's segment reporting is prepared in both IFRS and PAS, as described in detail in note 7 to the 2014 Financial Statements. The Group's operations are divided into the following reporting segments:

- corporate non-life insurance, which comprises a wide range of property, third party and motor insurance products customised to meet clients' expectations and with individual risk assessment, offered by PZU and Link4 to large corporate customers in Poland;
- retail non-life insurance, which comprises a wide range of property, accident, third party and motor insurance products offered by PZU and Link4 to retail clients and SMEs in Poland;
- group and individually continued life insurance, which comprises group insurance offered by PZU Życie to groups of employees and other formal groups (such as trade unions), intended for individuals who are in a legal relationship with the insuring party (for example, employers and trade unions) and individually continued insurance where an individual insured person who no longer benefits from a group insurance policy has elected to continue the insurance previously provided under that insurance policy. PZU Życie offers a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance in Poland;
- individual life insurance, which comprises life protection insurance, investment insurance (other than investment contracts) and health insurance offered by PZU Życie to individual clients in Poland where the insurance contract covers a specific individual who is subject to separate risk assessment;
- investment contracts, which comprises products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products). In accordance with IFRS and as required by IAS 39, these products are accounted for using the deposit method and measured depending on the structure of a product – at amortised cost or fair value. Written premiums on these products are not recognised in accordance with IFRS. In accordance with PAS, all of these products are disclosed as insurance products and written premium is recognised;
- investments, which comprises investment activities in respect of the Group's own funds (being the surplus of investments over technical provisions in PZU and PZU Życie) increased by the surplus of investment income over the risk-free rate corresponding to the value of the technical provisions of PZU and PZU Życie in non-investment products. This segment also includes income earned on other excess cash in the Group;
- Baltic states, which comprises non-life and, since 2013, life insurance written by the Group's Lithuanian insurance companies in all three States;
- Ukraine, which comprises non-life and, since 2013, life insurance written by the Group's Ukrainian insurance companies; and
- Pension funds, which comprises PZU PTE.

The table below shows certain segment information for 2014 and 2013 which is derived from note 7.8 to the 2014 Financial Statements. This information has been prepared under PAS, except where otherwise stated. For a reconciliation to IFRS and a more detailed description of how the segment information has been prepared, see note 7 to the 2014 Financial Statements.

2014	PZU and Link4		PZU Życie							Group
	Corporate non-life	Retail non-life	Group and individually continued life	Individual life	Investment contracts	Investments (external operations)	Baltics (IFRS)	Ukraine (IFRS)	Pension	Total
	<i>(PLN millions)</i>									
Gross written premium	1,831	6,569	6,539	1,269	374	—	536	174	—	16,885
Net earned premium	1,462	6,563	6,537	1,267	374	—	477	136	—	16,429
Net investment income	136	563	713	327	44	579	15	41	12	2,734
Claims net of reinsurance	(964)	(4,363)	(4,499)	(639)	(1,392)	—	(312)	(94)	—	(11,542)
Operating profit	217	756	1,762	163	15	579	(16)	2	203	3,913

2013	PZU		PZU Życie							Group
	Corporate non-life	Retail non-life	Group and individually continued life	Individual life	Investment contracts	Investments (external operations)	Baltics (IFRS)	Ukraine (IFRS)	Pension	Total
	<i>(PLN millions)</i>									
Gross written premium	1,740	6,534	6,415	1,330	1,098	—	262	204	—	16,480
Net earned premium	1,556	6,552	6,414	1,331	1,099	—	227	171	—	16,249
Net investment income	140	557	735	322	104	896	7	24	12	2,515
Claims net of reinsurance	(854)	(4,193)	(4,300)	(627)	(1,330)	—	(139)	(81)	—	(11,161)
Operating profit	391	1,067	1,603	140	11	896	1	16	137	4,181

Corporate and retail non-life insurance written by PZU

Overview

PZU and Link4 conduct the Group's Polish non-life insurance business. PZU offers a wide range of non-life insurance products, including motor, property, personal (including accident, travel and, for corporate customers, financial insurance), agricultural and third party liability insurance.

PZU's product range encompassed 200 insurance products at the end of 2014. A majority of the insurance products offered by PZU are standard products addressed to individual clients and SMEs. PZU also offers products designed for large corporate clients. In 2014 and according to PAS, PZU collected gross written premiums of PLN 8.3 billion, settled gross claims and benefits amounting to PLN 4.4 billion and generated a net profit of PLN 2.6 billion, of which PLN 2.06 billion was the dividend from PZU Życie. In 2014, PZU's combined ratio for non-life insurance was 94.7 per cent.

Link4 has been owned by the Group since 15 September 2014. Based on the Group's internal research, it leads the direct insurance market in Poland and offers a wide range of non-life insurance products, including motor, property, personal and third party liability insurance. In the 2014, Link4 collected PLN 417.1 million of gross written premiums and contributed to the Group gross written premiums PLN 139 million. 81.5 per cent of gross written premiums collected by Link4 in 2014 were generated by motor third party liability insurance and motor own damage insurance.

Principal classes of insurance

Motor insurance, which is provided to both corporate and retail customers, is an important group of products offered by PZU, both in terms of the number of valid insurance contracts as well as the share of the premium to the total value of gross written premiums, which was 56.5 per cent in 2014. PZU's mandatory motor insurance covers the third party liability of a driver of a motor vehicle who caused damage while driving that resulted in death, bodily injury, disturbance of health or loss or damage to property. The terms of this insurance are defined by Polish law. PZU's range of voluntary motor insurance products include motor own damage insurance, preferential motor own damage insurance, a motor assistance package, insurance of windows in motor vehicles, accident insurance for the driver and passengers of a motor vehicle, and accident insurance covering damage to other vehicles. The motor own damage insurance is one of the key products offered by PZU. It covers damage to the insured's motor vehicle and its equipment resulting from a collision with other motor vehicles, individuals, animals or things, third party actions, burglary, accidents, effects of thermal or chemical agents as well as a theft of the motor vehicle or equipment, and any damage resulting from such theft or attempted theft.

Non-motor insurance (mainly property insurance), which is also provided to both corporate and retail customers, accounts for 43.5 per cent of gross written premiums in 2014. In the retail segment, the most important product is comprehensive home insurance covering property damage, contents, third party liability and accidental damage. SMEs can also purchase comprehensive insurance packages covering all property held (including buildings and structures, plant and equipment, tools, working assets, capital expenditures, property accepted in order to provide services, cash kept on site and in transit, electronic equipment and data carriers, windows and goods in transit) as well as third party liability and assistance cover. In addition to these packages, PZU provides its SME customers with a wide range of standard insurance, for example property insurance against fire and other natural disasters, loss of profit insurance and all risk insurance.

Market position

According to KNF, PZU's (including Link4's) share of the Polish non-life insurance market, based on gross premiums written in the 2014, was 33.1 per cent. PZU (including Link4) has a strong market position in motor own damage insurance for individual customers, with a 36.4 per cent market share in 2014. In 2014, PZU's (including Link4's) market share in motor insurance for corporate customers was 47.9 per cent in motor third party liability insurance and 43.0 per cent in motor own damage insurance.

Clients' categories

PZU categorises its clients as corporate and mass clients:

- corporate clients are entities (such as companies, businesses without legal personality and sole proprietors) which satisfy certain segmentation criteria based on the minimum sum insured, the total premium paid and/or the number of motor vehicles owned. Corporate clients also include other customer groups that are distinguished by the type of business conducted;
- mass clients consist of natural persons and SMEs.

Premium setting

Premium setting involves two stages: an actuarial risk assessment and then a market risk assessment. The actuarial assessment is based on an in-depth analysis of claims records to date in view of premium variables and additional risk factors not included in previous premiums. For example, the review covers claims records for individual regions, taking into consideration factors such as the type, brand, model and age of a motor vehicle for motor insurance, and a number of other factors for client groups entitled to rebates or covered by different agreements. These analyses use source data relating to policies, claims and provisions. Additions to incurred but not reported provisions and provisions for annuities and costs used in analyses are based on reports prepared by the Group's actuaries. An actuarial premium is set based on the analysis of claims records to date and risk fluctuation assessments.

The market risk assessment involves additional market factors and conditions, marketing assumptions that are not subject to an actuarial risk assessment, sales potential and an expected margin. PZU's product offices are responsible for determining market premiums.

New premiums and changes in existing premiums are subject to Management Board approval.

Provisioning

Technical provisions are recognised to cover any current and future claims and costs which may arise under insurance policies on the basis of information provided by field units and claims developments scenarios based on historical data, separately for each product. The technical provisions are recognised at the end of each reporting period in accordance with PZU's internal regulations and applicable law.

PZU's technical provisions include (i) unearned premium provisions, (ii) unexpired risk provisions, (iii) outstanding claims and benefits provisions, including capitalised annuities provisions, (iv) provisions for bonuses and rebates and (v) risk equalisation provisions.

Reinsurance

PZU principally provides reinsurance support to its subsidiary insurance companies. It also provides limited reinsurance to third party insurers. In 2014, PZU's gross written premiums from reinsurance provided to third party insurers were less than 1.00 per cent. of its gross written premiums from its direct insurance business.

Life insurance written by PZU Życie

Overview

PZU Życie, a wholly-owned subsidiary of PZU, conducts life insurance business within Poland. PZU Życie offers a wide range of group and individual products, serving both protection and investment purposes, including life insurance, endowment and annuity insurance, employee pension schemes, health insurance and unit-linked insurance, as well as a wide range of complementary products to all product lines. In 2014 and according to PAS, PZU Życie collected gross written premiums of PLN 8.2 billion, settled gross claims and benefits amounting to PLN 6.6 billion and generated a net result of PLN 1.9 billion.

The greatest contribution to the gross written premiums gathered by PZU Życie is from group and individually continued life insurance. In 2014, gross written premiums in this segment amounted to PLN 6.5 billion, or 79.9 per cent of PZU Życie's total gross written premiums (according to PAS).

Products

PZU Życie offers a wide range of insurance products which is constantly adjusted to meet the needs of its customers. PZU Życie's product strategy is that it should offer all product lines to all market segments. PZU Życie's product classes are discussed below.

Group life insurance

Group life insurance covers the life or life and health of the insured and his or her immediate family members. This insurance is addressed mainly to employees who may join through insurance agreements between their employer and PZU Życie. Group life insurance is structured as a contract in favour of a third party, and may cover many insureds under one agreement. The premium is flat, regardless of the age and sex of the insured (provided that the amount insured and the benefits are equal as well). Persons who decide to join the insurance programme are not subject to any medical examinations.

Within this insurance group, there is a broad range of additional insurance products that the policy holder may add to the insurance, for example to increase the benefit payable or guarantee certain benefits in the event of health problems. There is also an option for an insured to individually continue the group insurance if the insured ceases to be eligible for the group insurance, for example if the insured ceases to be employed.

Group insurance is distributed by approximately 500 full-time employees of PZU Życie, and the Group maintains relationships with approximately 80,000 individuals at various companies and institutions in Poland who, pursuant to PZU Życie's general terms and conditions for group life insurance, technically service the insurance products. Additionally, PZU Życie has executed separate service agreements (against consideration) with a majority of these persons, under which they conduct insurance market research, customer satisfaction surveys and inform the customers of the location of PZU Życie's outlets and the possibility of contacting the relevant group insurance account manager at PZU Życie. Additionally SME group insurance is distributed through agents.

Group savings and protection insurance

- *Unit-linked group insurance:* This is a savings and protection product which aims to gather and invest funds for future pensions. The premiums may be financed by employers or deducted from the employees' remuneration. Funds remitted to PZU Życie as the premium or additional payments are convertible to units on unit accounts created individually for each insured. When the insured reaches the retirement age, PZU Życie disburses the funds gathered on the individual account, whereas in the event of the insured's death, the insurance agreement guarantees a payment to the person nominated by the insured of a benefit equal to the balance of the unit account increased by a certain amount determined in the agreement.
- *Employee pension programmes:* These are a form of organised group pension savings. PZU Życie enters into unit-linked group life insurance agreements with employers for their employees. The premium is paid from employer's funds and represents a defined proportion of the employee's salary. Each member may pay an additional premium up to a capped amount. In the event of the death of a beneficiary, the person nominated by the insured in his or her declaration receives a benefit equal to the amount insured and the balance on the participant's account. If the insured lives to the retirement age and satisfies certain conditions set out in the Act on Employee Pension Schemes, he or she receives the funds accumulated in his or her account.

Group health insurance

Group health insurance covers the life and the health of the insured or co-insured person. The products are divided into categories covering outpatient clinics and hospitalisation. Outpatient clinic insurance is offered both in the form of standalone insurance and as additional insurance, whereas the hospitalisation products are only offered as standalone agreements. The health insurance products offered by PZU Życie allow for fast access to limited public health services and financing of medical services in line with the chosen scope.

Individually continued insurance

This is the most of important individual insurance product in terms of gross written premiums offered by PZU Życie. It is offered exclusively to persons previously covered by group life insurance who may continue their insurance individually. It benefits persons who remain unemployed after their employment has ceased or where the new employer does not offer group life insurance or only offers less beneficial terms. The solution may also be attractive to individuals who retire due to age or disability. PZU Życie actively encourages clients under the age of 46 covered by group life insurance to convert to individually continued insurance. Customers who elect to individually continue their insurance may purchase additional products covering a wide range of risks, from death in an accident through to the permanent loss of health. Customers who have individually continued insurance products are serviced by PZU Życie's network of sales and service outlets.

Individual protection insurance

All individual protection insurance options described below offer insured amounts that may be indexed yearly and the option to extend the protection offered through additional agreements which may cover accidental death, permanent incapacitation, permanent inability to work, hospital treatment, serious sickness and surgery among others.

- *Term insurance:* This product is targeted at persons seeking life insurance for a certain period of time (most often until the repayment of financial indebtedness, such as a mortgage loan). It covers the insured's life. In the event of death, the beneficiary receives the amount insured. Individual term insurance may only be entered into on the basis of regular premium

payments, in amounts pre-determined for the entire contract period. This type of product is also offered in the form of group insurance through the bancassurance channel in combination with a borrowing, such as a mortgage loan.

- *Endowment insurance:* This product is used for a specific period of time (medium- or long-term). The saving component provides the insured with the possibility of savings for any purpose by way of guaranteeing the insured amount if the insured lives until the end of the insurance period. The protection component secures the payment of a certain benefit to the insured's family in the event of his or her death. This type of insurance is offered in two variants with regular premiums or a single premium.
- *Whole life insurance:* This product is used for an indefinite time, i.e. for the whole life of the insured. The coverage function ensures that a given benefit is paid to the relatives of the insured in the case of his or her death, with the coverage lasting up to the death of the insured. It is offered with regular premiums or a single premium. Premiums are paid for a designated time, in the period of professional activity of the insured. Afterwards, the protection in the event of death is guaranteed without time limitation.
- *Dowry insurance:* This product is used for a defined period of time (medium- or long-term), until the beneficiary's child reaches a certain age. The savings component ensures that the beneficiary's child will receive payments equalling the guaranteed insurance amount when the child reaches the age specified in the policy. The protection component of the insurance ensures that PZU Życie assumes the obligation to contribute premiums in the event of the policy holder's death. It is offered in variations with regular or single premiums.

Individual health insurance

Individual health insurance products cover outpatient clinic services and the life and health of the insured.

Individual savings and investment insurance

- *Life insurance with embedded deposits:* This is a short- or medium-term savings and protection endowment product with a single premium. The product guarantees the payment of the paid premiums at a pre-agreed rate of return both in the case of death and surviving the period of PZU Życie's liability.
- *Structured life insurance:* This is an investment product offered in the form of a single premium endowment. If the insured lives until the end of the period of PZU Życie's liability, the benefit he or she will receive will depend on the performance of the financial instruments purchased in line with the investment strategy applicable to the product. This type of product is also offered through the bancassurance channel.
- *Unit-linked life insurance:* This is a medium- or long-term product with regular or single premiums. It may serve as an investment, protection and investment or protection and savings product. The premium amount is used for purchasing individual units in insurance capital funds, as requested by the insured. In addition to the insurance protection against certain events, the insurance form of the product makes it possible for the client to invest, under the same agreement, his or her funds in investment funds selected from a range of different, including foreign, investment fund management companies. If the insured lives until the end of the period of PZU Życie's liability, he or she will receive the balance on the unit account of the insured. If the insured dies, the balance disbursed is increased by an additional cash benefit. This type of product is also offered through the bancassurance channel.

- *Unit-linked pension insurance:* This is a tax-efficient savings product, providing a way to accumulate and invest funds for the future pension in the framework of the third pillar of the Polish pension system. The Individual Pension Account offered by PZU Życie serves both savings and investment purposes. The premium paid is used to purchase units in insurance capital funds available for the product, as requested by the saver. The scope of the agreement covers the death of the saver during the liability period, and a disbursement of the funds gathered in the Individual Pension Account after the saver reaches the retirement age.

Market position

As of 31 December 2014, PZU Życie served approximately 12 million customers, out of which 7 million clients were insured through group policies.

In 2014 and according to KNF, PZU Życie had a 28.5 per cent market share in terms of gross premiums written in the Polish life insurance sector. PZU Życie is also the leader in Poland in the regularly paid premium segment with a market share of regularly paid gross premiums written of 42.8 per cent.

The ratio of PZU Życie's technical result to gross written premiums in 2014 was 4.7 times as high as the ratio achieved by all other Polish companies offering life insurance (26.2 per cent compared to 5.6 per cent). The operating profit of the Group life and continued business (excluding one offs) increased by 14.6 per cent from PLN 1.5 billion in 2013 to PLN 1.7 billion in 2014 (after excluding one-off effects).

Premium setting

PZU Życie sets premiums based on forecasted technical results of a given product over the term of the insurance contract. The forecast includes values of individual components of the technical results, including the gross written premiums, income from investments, claims paid, acquisition costs, administration expenses and claims handling and the change in technical provisions. To assess these results, profitability ratios are applied, such as discounted income for the years included in the projection, profitability calculated as discounted income to discounted premiums, internal rate of return and the break-even point. In addition, a premium sensitivity analysis is performed, including changes in parameters such as mortality and morbidity rates, expenses, policy lapse costs and macroeconomic assumptions.

The assumptions and parameters used in setting premiums are based both on PZU Życie's internal statistics (including the frequency of specified events, mortality rates or policy surrendering, among others) and public statistics (Polish life expectancy tables and morbidity tables). Premiums set using actuarial models are assessed based on market data and on sales possibilities, considering the margin embedded in a premium. Changes to existing premiums and new tariffs are approved by PZU Życie's Management Board.

Provisioning

Technical provisions are recognised to cover any current and future claims which may arise under insurance policies in accordance with PZU Życie's internal regulations. These provisions include:

- unearned premium provisions;
- life insurance provisions;
- life insurance provisions where the investment risk is borne by the policyholder;

- outstanding claims provisions;
- other technical provisions, including: (i) provisions for revalorisation of individual life insurance and annuity benefits taken over from PZU Życie; (ii) provisions for pending court proceedings and benefits paid pursuant to court decisions on changes in the amount or performance of cash benefits; and (iii) provisions for low interest rates connected with expected decrease in profitability of investments on account and at the risk of the insurer; and
- provisions for bonuses and rebates for the insured.

Investments

The Group's strategic goals for 2015 to 2020 in relation to its investment portfolios relating to own risk are:

- reduction of income volatility through the increase of investments in portfolios with profiles near the absolute rate of return instead of index portfolios;
- further diversification of its investment portfolio through the reduction of holdings of treasury debt securities and the increase of holdings of corporate debt and alternative assets; and
- increase of the role of strategic asset allocation given the low interest rate environment.

The Group's investment portfolios are managed by internal and external asset managers. TFI PZU, as a licenced external asset manager mainly manages portfolios invested in mark to market liquid assets under strict guidance and investment limits provided by PZU. The Structured Investment Bureau manages (mainly through investment funds) non sovereign debt exposures (corporate, bank and financial loans and bonds) as well as long term equity portfolios and alternative investments. The real estate investment funds portfolio is managed by the Real Estate Bureau. Held to maturity and liquidity portfolios are managed by the Treasury Bureau. Additionally PTE PZU and TFI PZU manage third party portfolios (pensions, business and investment funds purchased by third parties).

Investment decisions accompanied by a positive risk opinion require the approval of different bodies based on the asset type and the amount to be invested. In certain cases, the Head of Treasury or the Head of the Structured Investment Bureau can approve of an investment decision solely or jointly with the Chief Investment Officer depending on appropriate limits. Above those limits, ALCO, Management Board or the Supervisory Board approve the investment decisions according to internal regulations.

The table below shows the Group's investments (including investment products), investment property and financial liabilities (negative valuation of derivative instruments and obligation under sell-buy-back transactions) as at 31 December 2014 and 31 December 2013.

		2014		2013	
		<i>(PLN million)</i>	<i>(% of total)</i>	<i>(PLN million)</i>	<i>(% of total)</i>
Equity instruments including:		6,496	12.0	6,308	12.3
Equity instruments, for which fair value can be determined – listed.....		3,374	6.3	3,691	7.2
Equity instruments, for which fair value can be		3,119	5.8	2,614	5.1

determined – other				
Equity instruments, for which fair value cannot be determined.....	3	0.0	3	0.0
Interest-bearing financial assets, including:	49,717	92.1	48,518	94.8
Debt securities – government	34,202	63.4	33,436	65.3
Debt securities – other	3,812	7.1	2,769	5.4
Buy-sell back transactions and term deposits with credit institutions.....	9,394	17.4	10,590	20.7
Loans.....	2,310	4.3	1,722	3.4
Investment property	2,236	4.1	1,475	2.9
Derivatives (net value).....	(79)	(0.1)	22	0.0
Other	0	0.0	0	0.0
Liabilities under sell-buy-back transactions.....	(4,411)	(8.2)	(5,124)	(10.0)
Total	53.959	100.0	51,199	100.0

The line “Equity instruments, for which fair value can be determined – listed” consist mainly of assets on the Group’s own risk, whereas the line “Equity instruments, for which fair value can be determined – other” consist predominantly of unit-linked assets.

In 2014 and in 2015, the Group continued to diversify its asset portfolio. The lines “Debt securities – other” and “Loans” consist mainly of corporate debt instruments issued by Polish companies and domestic banks denominated mainly in PLN. The Group’s use of derivative contracts is restricted. For portfolios managed by TFI PZU, standard derivative contracts may be used but are subject to strict limits. For other portfolios derivatives may only be entered into in order to hedge risks on the basis of a positive risk opinion.

PTE PZU

PTE PZU, a subsidiary of PZU Życie, operates in the market of open-end pension funds representing the second pillar of the pension system in Poland. PTE PZU manages OFE PZU, one of the largest open-end pension funds in Poland. As at 31 December 2014, OFE PZU ranked third in the market both in terms of the number of members and net assets. OFE PZU has 2.2 million members who represented 13.4 per cent of all participants of open-ended pension funds in Poland at 31 December 2014. As at 31 December 2014, PTE PZU's operating profit was PLN 203 million, or 5.2 per cent of the Group's operating profit.

Health market

The Group believes that the health market in Poland has significant growth potential and so has decided to increase its presence in this market sector. In 2015, the Group established a separate company, PZU Zdrowie S.A., which holds all assets from the health services sector acquired by the Group. The Group has already acquired several companies offering various health services and

expects to designate PLN 450 million for further acquisitions in this sector in the period from 2015 to 2020. Currently, the Group offers medical services in several facilities in Poland, but is considering investments in new facilities, including hospitals and care facilities.

Baltic States

In Lithuania, PZU conducts its non-life business through Lietuvos Draudimas and the life insurance business through PZU Lithuania Life.

Lietuvos Draudimas is the market leader in the non-life insurance market with a market share of 30.9 per cent and gross written premium of EUR 119.5 million as at the 31 December 2014. PZU Lithuania's market share in life insurance was 4.1 per cent.

On 2 January 2015 the Group agreed to sell its shares in PZU Lithuania to Gjensidige Forsikring ASA, a Norwegian insurance company. The transaction was subject to regulatory approvals, which were fulfilled and the transaction took place on 30 September 2015. The Group decided to sell PZU Lithuania because one of the conditions of the anti-monopoly office of Bank Lithuania's consent to the Group's acquisition of Lietuvos Draudimas was that the Group reduces its market share in motor own damage and property insurance.

In Latvia, the Group conducts its business through AAS Balta. AAS Balta is the market leader in non-life insurance in Latvia with a market share of 22.9 per cent.³ AAS Balta and PZU Lithuania had a combined gross written premium of EUR 61.2 million as at 31 December 2014. Since 1 July 2014, AAS Balta has contributed EUR 28.9 million to the gross written premiums of the Group.

In Estonia, the Group conducts its business through a branch of Lietuvos Draudimas. As at 31 December 2014, its market share in Estonia was 14.5 per cent.. Since 1 November 2014, Codan has contributed EUR 5.3 million to the gross written premiums of the Group

Ukraine

In Ukraine, the Group conducts its non-life insurance business through PZU Ukraine and its life insurance business through PZU Ukraine Life. In 2014 and 2013, total gross written premiums from activity in Ukraine amounted to 1.0 and 1.2 per cent, respectively. PZU Ukraine had gross written premiums of UAH 503.9 million and PZU Ukraine Life had gross written premiums of UAH 154.3 million.

As at 31 December 2014, PZU Ukraine had a 2.0 per cent share of the gross written premiums in the Ukrainian non-life insurance sector, which gave it ninth place in the market according to the State Commission for Regulation of Financial Services Markets of Ukraine. In the life insurance market, PZU Ukraine Life achieved seventh place as at 31 December 2014 with a market share of 7.1 per cent compared to the leading share of 18.0 per cent, according to the State Commission for Regulation of Financial Services Markets of Ukraine.

The armed conflict in East Ukraine has caused a significant depreciation of hryvnia, the collapse of domestic demand and liquidity issues, particularly in the banking sector. The depreciation of Hryvnia led to lower Group gross written premiums and net assets denominated in this currency. However, this negative effect was significantly set – off by increased demand for PZU Ukraine products from customers who, due to the crisis, started to choose insurance companies with western capital and this has benefited PZU Ukraine and PZU Ukraine Life.

³ Source: Association of Latvian Insurers and Motor Insurers' Bureau of Latvia. Market data represented after MTPL compulsory deductions.

PRODUCT DISTRIBUTION IN POLAND

The Group's distribution network includes:

- exclusive agents: exclusive field and office agents are the Group's largest populated distribution channel and one of the most important channel for the distribution of motor insurance. Agents in Poland sell PZU brand named products to clients solicited by themselves and those who visit their offices, which are usually small sales and services outlets. Office agents have separate sales desks in PZU's sales and service outlets and take the opportunity to approach clients visiting PZU outlets. As of 31 December 2014, the Group co-operated with approximately 9,100 exclusive insurance agents in Poland;
- agencies offering products of various insurance companies: these are insurance agents who co-operate with several insurance companies. These agents conduct business mainly in insurance sales offices, car dealerships, travel agencies, as well as in municipality offices. As of 31 December 2014, PZU and PZU Życie co-operated with approximately 2,900 multi-agents. These agents mainly sell motor insurance and property insurance, and specialised multi-agents also handle corporate motor insurance programmes;
- insurance brokers: insurance brokers act for clients who seek insurance protection in exchange for a fee generally payable by an insurance company. As of 31 December 2014, the Group co-operated with a total of approximately 900 brokers in Poland;
- the Group's sales employees in Poland are dedicated mainly to corporate and group business;
- banks offering bancassurance products and partners co-operating with the Group under strategic partnership programmes; and
- direct sales channels (telephone and the internet): PZU online is a system which supports insurance sales over the internet and telephone. It is used to offer motor insurance to mass clients and SMEs.

Agents are the main distribution channel. There is no cross-over between agents selling life products and agents selling non-life products.

CLAIMS HANDLING IN POLAND

The claims handling process is conducted at a central unit and eight regional claims centres. At the central unit, the model of an equal workload of individual claims handling units has been implemented because the process is based mainly on electronic information, and there is no connection of the servicing of a claim with the place of residence of the insured or the location where an event occurred.

PZU strives to preserve the highest service standards and conducts regular and advanced surveys concerning customer satisfaction. As of the end of June 2015⁴, the survey results showed that the PZU customer satisfaction level, of those who experienced the claims handling process or received a payment of benefits in the last 12 month period, was 9.3 percentage points higher than PZU's competitors. The PZU client's NPS (*Net Promoter Score*) was 11.4 per cent..

⁴ Survey is carried out on a monthly basis by GFK Polonia on request by PZU. Cumulated data from January till June 2015

CAPITAL MANAGEMENT

The Group's capital policy for the 2013-2015 period is intended to increase its total shareholder return and is based on the following rules:

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

The Group's capital management involves, among other things, monitoring its key solvency parameters, such as the level of own funds and the degree to which such funds are sufficient to cover the required solvency margin and the guarantee fund. IFRS does not lay down principles applicable to calculation of the required solvency margin or own funds covering the solvency margin.

Pursuant to the Insurance Act, Polish insurance companies must have own funds in an amount not lower than the required solvency margin and the guarantee fund. In order to determine the value of own funds, PZU's assets are reduced by the value of its intangible assets, deferred tax asset, assets allocated to settle all expected liabilities as well as shares held by PZU and other assets used to finance the equity of insurance companies operating within the same insurance capital group. The value so determined is adjusted in proportion to the shares held by PZU by the total surplus or shortage of own funds of the controlled insurance companies over their solvency margins.

The principles for calculating the required solvency margin and the minimum value of the guarantee fund are set out in the Ordinance of 28 November 2003 on the manner of calculating the solvency margin and the minimum amount of the guarantee fund for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060 with subsequent amendments, the "**Solvency Margin Ordinance**").

The calculation of own funds and solvency margin (under Solvency I) includes financial data in accordance with PAS.

The table below shows for both PZU and PZU Życie, its own funds, its required solvency margin (in PLN, under Solvency I) and its solvency margin ratio (being the excess of its own funds over its required solvency margin), in each case as of 30 June 2015, 31 December 2014 and 31 December 2013 and calculated in accordance with PAS.

Company	30 June 2015	31 December 2014	31 December 2013
PZU own funds (<i>PLN millions</i>)	6,654	7,981	9,506
PZU required solvency margin (<i>PLN millions</i>)	1,369	1,362	1,362
PZU solvency margin ratio	486.0%	585.9%	697.7%
PZU Życie own funds (<i>PLN millions</i>)	3,510	3,996	4,185
PZU Życie required solvency margin (<i>PLN millions</i>)	1,796	1,783	1,777
PZU Życie solvency margin ratio (%)	195.4%	224.1%	235.5%
Group solvency margin ratio (%)	251.6%	291.2%	351.8%

(Information is based on the Group's financial statements, its management reports and PZU's internal calculations.)

In both 2013 and 2014, PZU and PZU Życie passed the annual stress tests for insurance companies with high solvency margins and comfortable provision coverage ratios.

The capital requirement calculation model will be changed when the Solvency II directive enters into force on 1 January 2016. The Solvency II directive will introduce economic risk-based solvency requirements across all European Union Member States for the first time. The new solvency requirements are aiming to be more risk-sensitive and more sophisticated than in the past, thus enabling a better coverage of the real risks. The Group does not publish its Solvency II results because certain aspects of the regulation remain uncertain. However, based on the information currently available to it, the Group does not expect the Solvency II capital requirements to have a negative impact on its solvency ratios or capital needs.

Under Polish regulations, insurance companies are obliged to cover technical provisions with assets. The types of the assets and the composition of such portfolio are set out in the Insurance Act. This means that potential dividends resulting from a surplus of own funds in excess of the solvency margin may need to be reduced by the value of certain assets which cannot represent the coverage for technical provisions. The table below presents ratios of assets covering technical reserves of PZU and PZU Życie, expressed as a percentage of the excess of assets covering technical reserves over technical reserves, as of 30 June 2015, 31 December 2014 and 31 December 2013.

Company	30 June 2015	31 December 2014	31 December 2013
PZU	114.6%	118.3%	115.5%
PZU Życie	123.5%	117.0%	115.8%

(Information is based on the Group's financial statements, its management reports and PZU's internal calculations. Under the new Insurance Act and Solvency II regulations the ratio of assets covering technical reserves shall cease to be in force from 1 January 2016.)

BORROWINGS

As of 31 December 2014 the Group had outstanding liabilities, under credit facilities granted to the Group and debt securities issued by the Group, of PLN 2.4 billion.

RELATED PARTY TRANSACTIONS

The Group's related party transactions are limited. As part of its insurance activities PZU concludes insurance contracts with related parties and pays claims. Such transactions are concluded and settled on a commercial arms-length basis. The Group's related party transactions are described in note 57 to the Financial Statements for 2014.

RISK MANAGEMENT

The risk management system of the Group is based on a risk analysis of all processes and organisational units, and it is an integral part of the system of governance.

The main elements of the risk management system are consistent for all companies of the Group and implemented in a way which ensures meeting business objectives of individual companies as well as the strategic goals of the whole Group.

The key elements of the Group risk management framework are:

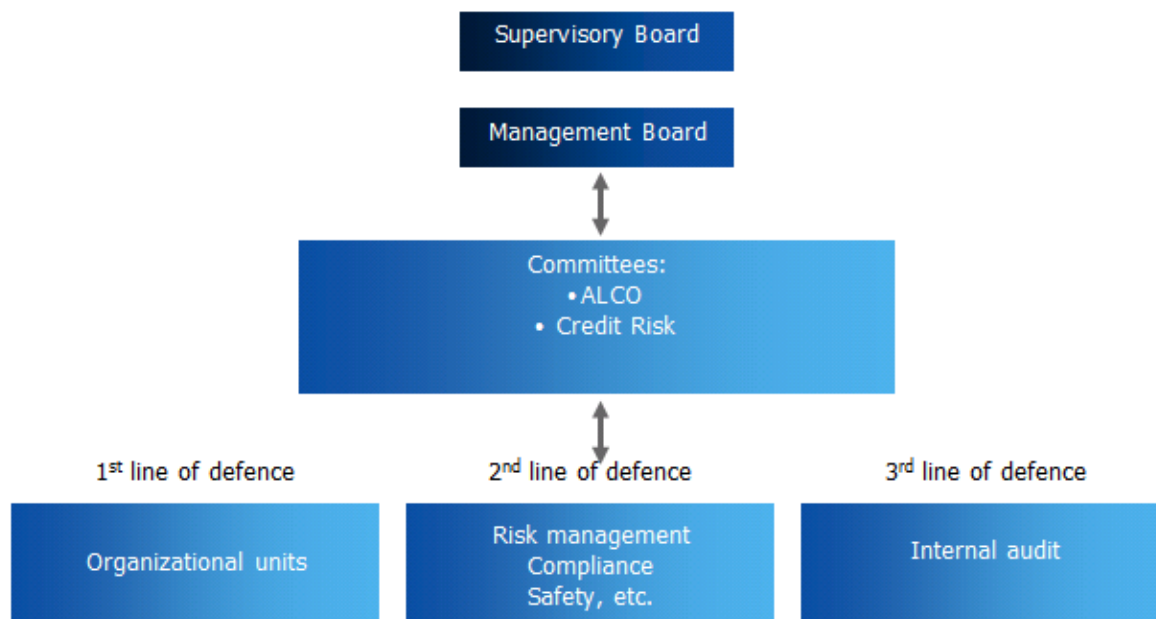
- raising the value of the Group through active and conscious management of the amount of risk exposure; and
- preventing the taking on of risk at a level which could threaten the financial stability of the Group.

Objective of risk management

The objective of risk management within the Group is to ensure that PZU and PZU Życie pursue their business goals, monitor and manage their investment and insurance portfolios and operational risk safely and appropriately based on the scale of the risks incurred.

The main elements of the risk management strategy include:

- a system of limits on the level of risk and restrictions defined by the Management Board, the Supervisory Board, and appropriate committees, including the level of the appetite for risk;
- a processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks; and
- a risk management organisational structure, in which the Management Board, the Supervisory Board, the ALCO and the Credit Risk Committee (the “**CRC**”) play a key role.



Risk management system

The risk management system at PZU and PZU Życie is based on three elements:

- organisational structure - comprising the division of responsibilities and tasks performed by the individual organisational units in the risk management process;
- actions taken with the use of hedging and risk transfer techniques in order to adjust the risk profile and appetite for risk to strategic plans; and
- methods for identifying, measuring, assessing, monitoring and reporting risk.

The risk management organisational structure is based on four competence levels which are as follows:

The Supervisory Board

The Supervisory Board supervises the risk management process and assesses its adequacy and effectiveness.

The Management Board

The Management Board organises the risk management system and ensures its functionality through approving the strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk

The committees

The committees (ALCO and CRC) make decisions to reduce individual risks to the levels defined by the appetite for risk. The committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

Operations

The fourth level of responsibility is at the operating level, at which the risk management activities are divided among three lines of defence:

- **first line of defence** - on-going risk management at the Group's business and organisational units together with decision-making as part of the risk management process. The managers of the Group's various business and organisation units are responsible for implementing an effective risk management system. They are responsible for design and effective operation of risk identification and monitoring measures, which are integral components of the processes guaranteeing adequate response to risks as they arise;
- **the second line of defence** - risk management by specialised units responsible for risk identification, monitoring and reporting and controlling the extent of the risks taken. The units which play an important role in this process are the Risk Department, the Compliance Department the Security Department; and
- **the third line of defence** - comprises the Internal Audit Department, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the Group's activities.

Risk appetite

The appetite for risk, risk profile and risk tolerance reflect the Group's strategic plans and are based on maintaining a minimum level of Solvency I coverage ratio for both normal and stressed conditions. The Group aims to ensure that its risk management system is adequate and effective and that it works to prevent the Group from accepting risk levels which could jeopardise the Group's financial stability.

The risk management strategy, which was updated by the Management Board in 2013, defines the maximum and minimum parameters of the risk appetite, risk profile and tolerance limits.

Risk appetite

The Group's risk appetite is defined as the level of risk which it is prepared to accept while pursuing its business objectives. The level of risk appetite equals the Group's minimum - solvency coverage ratio, which is 250 per cent. As at 31 December 2014, the actual solvency coverage ratio was 291.2 per cent.

Risk profile

These are quantitative limits related to insurance, market, credit, concentration and operational risk which define the risk appetite of Group companies more precisely. These limits are monitored and reported to the Management Board and the Audit Committee on a regular basis.

Tolerance limits.

These are additional risk limits for the major risk categories designed to mitigate specific risk types and include a minimum combined ratio level for non-life insurance, a minimum loss ratio for group life insurance, Value at Risk ("VaR") limits market, credit and concentration risks and a maximum one-time unexpected loss limit for operational risk.

Risk management process

The process of risk identification, measurement, assessment, monitoring and reporting, as well as the process of taking management actions, is subject to internal control at the Group to ensure its compliance with internal and external regulations and continuing improvement and appropriateness for the Group's business profile.

Identification

The process of risk identification starts with the creation of an insurance product, the acquisition of a financial instrument or the changing of an operating process, as well as any other event which could potentially create a risk for Group. The process lasts until the liabilities, receivables or activities relating to the event expire. Risk identification involves identifying the actual and potential sources of risk and estimating the materiality of the potential impact of such risks on the Group's financial position.

Measurement

The materiality of all potential risks is analysed. Every risk which is considered material and measurable is subject to a measurement process comprising the definition of appropriate risk measures, materiality of risk and availability of data. Risk measurement is performed by specialist units. The Risk Department is responsible for developing appropriate tools to measure risk with a view to determining the risk appetite, risk profile and appropriate limits.

Risk assessment

Overall risk assessment is reflected on the risk map, which presents a systematic visualisation of the levels of the Group's risk exposure. Measurable risks are assessed by the Risk Department. Non-measurable risks are assessed by experts and their assessment is taken into account in the overall risk measurement.

Risk monitoring and control

This involves on-going reviews of any variances from the assumed parameters, namely limits, thresholds, plans, values from the previous period, recommendations and guidelines issued, which are performed by dedicated units. The monitoring process also involves risk measurement through the calculation and analysis of risk.

Reporting

This process allows efficient risk communication and supports risk management at various decision-making levels from individual employees to the Supervisory Board. Management Board members supervising individual business lines receive current reports (daily/weekly) on changes in the specific areas that affect the level of risk and the extent to which the levels of market risk are utilised.

PZU and PZU Życie prepare risk reports for:

- Management Board members on a monthly and quarterly basis, and Supervisory Board members on a quarterly basis, providing information by portfolio and business line on the levels of insurance, market, credit, concentration, operational and compliance risk;
- ALCO and CRC members on a weekly basis providing information on the level of market, credit and concentration risk levels and current information on exceeded limits;

- ALCO and CRC members and other relevant senior management immediately upon any relevant limit being breached; and
- the other business units' on the levels of risk related to their activities in accordance with applicable internal regulations.

Management actions relating to individual risk categories are defined in the Group's internal regulations. Depending on the type and characteristics of the risk, these actions can include the avoidance of risk, the transfer of risk, the mitigation of risk, the acceptance of risk levels and tools which support these actions, i.e. limits, reinsurance programmes and underwriting policy reviews.

Risk profile

The principle risks incurred by PZU and PZU Życie are insurance risk, market risk, credit risk, concentration risk, liquidity risk, operational risk and compliance risk.

Insurance risk

Insurance risk is the risk of a loss or an adverse change in the value of insurance liabilities as a result of improper assumptions regarding valuation and establishment of provisions. The insurance risk management process starts when an insurance product is created, while insurance risk assessment involves recognising the degree of exposure or a group of exposures related to the possibility of incurring a loss and analysing the risk elements in order to make a decision on whether the Group should accept a risk for insurance and assume liability. The insurance risk analysis takes into account the scope of insurance cover granted, the amount of the premium and (in financial insurance) the level of security.

The insurance risk assessment also involves preventing losses, reducing the frequency of losses and reducing the extent of losses as well as reinsurance of the largest risks.

Insurance risk measurement is based in particular on:

- the analysis of selected ratios, including the solvency ratio, the combined ratio, the premium ceded ratio, the provision adequacy ratio and the loss ratio in group insurance;
- the scenario method which is an analysis of impairment arising from an assumed change in risk factors;
- the factor method which is a simplified version of the scenario method, reduced to one scenario per risk factor;
- statistical data;
- exposure and sensitivity measures, and
- the expertise of the Group's employees.

The Group manages insurance risk in particular by:

- calculating and monitoring the adequacy of technical reserves;
- its premium strategy whereby the Group seeks to set premiums at a level which allows it to make payouts under its customers' insurance policies;

- a separate underwriting process for certain insurance risks; and
- the use of insurance risk mitigation tools, including, in particular, reinsurance.

Calculation and monitoring of adequacy of technical reserves

PZU and PZU Życie manage the adequacy of their technical reserves by applying appropriate calculation technology and process controls in relation to the determination of provisions. The provisioning policy is based on:

- a prudent approach to determining technical reserves; and
- the continuity principle, which is that the technical provisioning methodology should not be modified unless important circumstances justify the modification.

For non-life insurance (PZU), the level of technical provisions is evaluated once a month and updated more frequently only in specific circumstances. PZU uses its payment history as a key tool in analysing the amount of its technical reserves.

For life insurance products (PZU Życie), public statistics (such as life expectancy tables) and historic data derived from its insurance portfolios provide the main sources of data to estimate the projected frequency of claims. PZU Życie undertakes regular statistical analyses of claims frequency on product group, insurance portfolio and pre-defined homogenous risk group levels. These analyses show the relative frequency of claims compared to public statistics. The application of appropriate statistical methods allows PZU Życie to determine materiality of data and, where required, to define and apply appropriate security charges when creating technical reserves and measuring risk.

The process of estimating technical reserves in both PZU and PZU Życie is supervised by actuaries. Additionally, each year an independent external expert calculates the reserves in order to check the results provided by PZU and carries out a valuation of PZU Życie's life insurance portfolios within its embedded value calculation.

Premium strategy

The purpose of the premium policy applied by PZU and PZU Życie is to ensure an adequate premium level, sufficient to cover existing and future liabilities arising on concluded policies and expenses. Along with developing a premium, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are carried out for each insurance class based on analyses and listings, including evaluation of the technical result on a product for a given reporting period. For selected products, a profitability evaluation is carried out based on measurement of insurance portfolios under the embedded value calculation. Where appropriate, premiums may be modified or the insured risk profile improved through modification of general insurance terms.

Underwriting

A separate underwriting process independent from the sales function is carried out for corporate customers and SMEs. The process of selling insurance to corporate clients is preceded by an analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system, depending on competency scopes and limits granted.

Reinsurance

For a discussion of the Group's principal reinsurance contracts, see "*Reinsurance operations*" below. For information on the development of technical provisions and payments in subsequent periods, insurance risk concentrations and sensitivity analyses, see note 8.6.1.1 to the 2014 Financial Statements.

Market risk

This is the risk of a loss or an adverse change in the Group's financial condition, which directly or indirectly arises from fluctuations in market prices of assets, liabilities and financial instruments.

The identification of market risk involves recognising the actual and potential sources of such risk. In the case of assets, the market risk identification process begins when a decision is made to commence transactions on a given type of financial instrument. The units which start dealing in a financial instrument prepare a description of the instrument including a description of the risk factors and submit it to the Risk Department which identifies and assesses the market risk on this basis.

The process of identifying the market risks relating to insurance liabilities involves identifying the relationship between the financial benefit associated with such product and the market risk factors. Identified market risks are assessed in terms of materiality, i.e. based on whether the materialisation of a risk would be related to a loss that could affect the Group's financial position.

The Group measures market risk using VaR. As applied by the Group, VaR is a risk measure quantifying the potential economic loss which could arise from a particular action and which will not be exceeded over a period of one year with a 99.5 per cent probability under normal market circumstances. The Group also uses exposure and sensitivity measures and accumulated monthly loss.

The risk measurement is performed on both a daily and monthly basis. The exposures and sensitivity of financial instruments which the Group has positions in are measured on a daily basis. On a monthly basis market risk is monitored by the Risk Department.

The Group deals with market risks in a number of ways. It concludes transactions to mitigate market risk, such as selling financial instruments, closing a derivative and purchasing a hedging derivative. It diversifies its portfolio of assets, in particular with respect to maturities of instruments and the concentration of exposure in one entity or geographical area, it invests in highly liquid instruments and sets market risk restrictions and limits, including exposure limits for equity, commodity and real estate investments, and investments in inflation indexed bonds, position limits for foreign currency exposures and basis point limits for interest rate risks. The setting of such limits is the main management tool for maintaining risk positions within acceptable tolerance levels. The structure of limits for the individual market risk categories and the Group's organisational units is defined by the ALCO taking into account the risk tolerance set by the Management Board. The ALCO sets additional detailed market risk limits.

The Group has the following concentrations of market risk:

- *Exposure to treasury securities issued by State Treasury of Poland* – as at 31 December 2014, the exposure of the Group to treasury securities issued by the Polish State Treasury, including securities subject to buy-sell-back transactions, amounted to PLN 36.2 billion (PLN 34.8 billion as at 31 December 2013), accounting for 63.7 per cent of the Group's total financial assets (63.2 per cent as at 31 December 2013).
- *Exposure to WSE-listed stock* - as at 31 December 2014, the Group's exposure to stock listed on the WSE amounted to PLN 2.7 billion (PLN 3.0 billion as at 31 December 2013), which

accounted for 4.8 per cent of the Group's total financial assets (5.5 per cent as at 31 December 2013) and 80.4 per cent of its exposure in listed equity instruments (81.5 per cent as at 31 December 2013).

- *Exposure to assets of PKO BP SA* – PKO BP SA is the bank to which the Group has the single highest exposure. As at 31 December 2014, the Group's exposure to deposits made by it with, and bonds and shares issued by, that bank amounted to PLN 2.0 billion (PLN 2.3 billion as at 31 December 2013).
- *Exposure to banks* – the Group's exposure to deposits made by it with, bonds and shares issued by, and derivatives contracts with, banks generally amounted to PLN 13.2 billion (PLN 10.2 billion as at 31 December 2013), which accounted for 23.3 per cent of the Group's total financial assets (18.4 per cent as at 31 December 2013).
- *Exposure to assets denominated in PLN* – the Group's financial assets denominated in PLN accounted for 92.8 per cent of its total financial assets as 31 December 2014 (93.5 per cent as at 31 December 2013).
- *Investment where the investment risk is borne by the policyholder* - as at 31 December 2014, the Group's unit-linked insurance and investment contract portfolio amounted to 8.8 per cent of its total financial assets (8.6 per cent as at 31 December 2013).

For information on the value of financial assets exposed to market risk and the derivatives held by the Group to hedge market risk, see note 8.6.2 to the 2014 Financial Statements. The same note also contains sensitivity analyses in relation to interest rate risk, foreign exchange risk and price risk.

Credit risk and concentration risk

Credit risk is the risk that the Group incurs a loss or suffers an adverse change in its financial situation as a result of changes in the creditworthiness of issuers of securities in which members of the Group may have invested or through a deterioration in the credit quality of the Group's counterparties. Concentration risk is the risk of the Group suffering losses as a result of being over exposed to a particular geography or type of insurance or asset.

Three main types of credit risk exposure occur in PZU and PZU Życie:

- bankruptcy of an issuer of instruments, such as corporate bonds, in which PZU and PZU Życie have invested;
- a counterparty's failure to meet its obligations, for example under a reinsurance or derivatives contract, as well as through bancassurance activities; and
- risk of a PZU client's failure to meet its obligations to a third party where PZU has insured that performance, for example under an insurance contract in respect of financial receivables or an insurance guarantee.

Credit risk is measured by assessing exposure to a particular asset (the amount of the gross and net credit exposure and maturity-weighted net credit exposure) as well as VaR. Credit risk measurement with respect to a single entity is estimated as the sum of single exposures, calculated as the product of the risk weight for internal rating and the net maturity-weighted credit exposure.

The concentration risk of a single entity is calculated as the product of the amount of exposure to such entity over the excessive concentration level and the concentration risk ratio set for every internal rating. The Group's total concentration risk is measured as the sum of concentration risks of

individual entities. In the case of related entities concentration risk is specified for all related entities cumulatively.

Credit and concentration risk monitoring involves analysing the risk level, assessing creditworthiness and determining the level of utilisation of the limits set. Financial insurance exposures and VaR limits are monitored monthly. Risks which are reinsured are monitored semi-annually and all other exposure limits are monitored daily.

The Group deals with credit and concentration risk in a number of ways. It concludes transactions aimed at mitigating these risks, such as selling a financial instrument, closing a derivatives or purchasing a hedging derivative. It accepts security interests and reinsures certain financial insurance portfolios. It also seeks to diversify its financial assets and insurance and sets limits on its exposure to a single entity, group of entities, sector and country.

The structure of credit and concentration risk limits for individual issuers is determined by the CRC in line with the risk tolerance determined by the Management Board. The CRC sets detailed limits on amounts and qualitative restrictions.

For an analysis of the Group's assets exposed to credit risk by ratings category and the credit risk of its reinsurers, see note 8.6.3 to the 2014 Financial Statements.

Liquidity risk

Liquidity risk is the risk of encountering difficulties in fulfilling obligations arising from financial liabilities.

Within the Group, financial liquidity risk results from three types of events:

- shortages of liquid funds in ongoing operations;
- illiquidity of financial instruments held by the Group; and
- a structural gap between the maturity of assets and liabilities.

The Group manages liquidity risk in short-, medium- and long-term horizons.

On a short-term basis, limits are the principal tool used to manage liquidity. In addition, the Group uses repo transactions to manage its liquidity. In the medium-term, the Group maintains liquid investment portfolios. In the long-term, asset and liability management techniques are used to match the structure of financial investments which cover technical provisions to the nature of such provisions. The asset and liability management process also seeks to ensure the capability to pay claims and benefits within the shortest possible time, even in unfavourable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyses, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

For a discussion of the match between cash flows related to technical provisions in non-life insurance and the assets used as their coverage and the match between cash flows from technical provisions and liabilities under investment contracts as well as the assets used as their coverage for life products, see note 8.6.2.4 to the 2014 Financial Statements.

Operational risk

Operational risk is the risk of incurring a loss arising from:

- inappropriate or incorrect internal processes;
- human actions;
- the incorrect operation of systems; and
- external events.

Operational risk management aims to optimise the Group's operations and ensure that adequate and effective controls are put in place so as to reduce losses and costs arising from such risks. The Group has established an operational events and loss database in order to prepare, implement and develop control mechanisms to avoid similar events in the future and assess the level of assumed risk exposure and potential future losses. The level of operational risk is monitored and assessed by the Group using key risk indicators specifically relevant to the Security, HR, IT and Legal departments.

To manage its operational risk, the Group seeks to ensure that its processes and procedures are kept up to date and that regular checks are made. It automates its control systems and has contingency and business continuity plans in place. It monitors and analyses any security incidents and any IT failures. It also analyses employee turnover and seeks to minimise any risks through its staff selection procedures and incentive systems.

The Management Board and Supervisory Board members regularly receive information on the Group's operational risk level.

Compliance risk

Compliance risk is the risk of legal sanctions, financial losses or a loss of reputation arising from any failure by a member of the Group to comply with law, internal regulations or appropriate standards of conduct, including ethical standards.

Compliance risk is managed through the Group's compliance policy. The management boards of the Group companies are responsible for making strategic decisions regarding compliance risk and accepting risk levels in this area. The compliance risk management process is co-ordinated by the Compliance Department. Reporting on compliance risk takes place quarterly. Risk reports for the Group are submitted to the Management Board every year by 15 March. No material compliance risk incidents were identified in 2014.

Management actions taken in response to compliance risks include acceptance of risk, for example in connection with legal or regulatory changes; mitigation of risk, including adjustment of procedures and processes to regulatory requirements, issuing opinions and drafting internal regulations; and avoiding risk through the prevention of involvement of Group companies in activities which do not comply with the regulatory requirements or good market practices or which could have an adverse effect on the Group's reputation.

REINSURANCE OPERATIONS

Reinsurance cover reduces the consequences of the occurrence of catastrophic phenomena which could adversely affect the financial standing of the Group. The Group has to enter into certain obligatory reinsurance contracts which it supplements with optional reinsurance contracts.

Reinsurance contracts - PZU

PZU has centralised its reinsurance function and uses reinsurance contracts to mitigate its exposure to catastrophic losses, for example floods and hurricanes, through a catastrophic non-proportional excess loss contract. It limits its exposure to large one-off losses through non-proportional reinsurance contracts protecting its property, technical, marine, aviation, third party liability and motor third party liability insurance portfolios.

PZU's risk is also mitigated through reinsurance of its financial insurance portfolio.

In 2014, the main partners providing obligatory reinsurance cover to PZU were Swiss Re, Hannover Re, Munich Re, Scor and Lloyd's. PZU's reinsurance partners have high S&P/AM Best ratings which gives PZU greater certainty as to each reinsurer's ability to meet its obligations to PZU.

PZU also provides obligatory and optional reinsurance to its subsidiaries. In addition, PZU offers limited reinsurance to other insurance companies in and outside Poland, mainly through optional reinsurance.

Reinsurance contracts – PZU Życie

PZU Życie cedes reinsurance to protect its portfolio against the accumulation of risks, in particular catastrophic risk. It also protects individual policies with high sums insured and the juvenile serious illness group insurance portfolio.

The partners granting reinsurance cover to PZU Życie include RGA, Partner Re and Arch Re. PZU Życie's reinsurance partners have high S&P ratings which gives PZU Życie greater certainty as to each reinsurer's ability to meet its obligations to PZU Życie.

MAJOR SHAREHOLDERS

As of the date of this Prospectus, PZU's share capital is divided into 86,352,300 ordinary shares with nominal value of PLN 1 each. Each share gives its holder the right to one vote at PZU's general meeting.

On 30 June 2015, PZU's General Meeting adopted a resolution for a share split of PZU's shares. Each share will be exchanged into 10 new shares with nominal value of 0.10 PLN each. PZU intends to finalise the procedure for the share split in November 2015.

PZU is a public company and its shares are listed on the regulated market of the WSE. Therefore, PZU does not have detailed information on all of its shareholders. PZU receives information on its significant shareholders only if these shareholders comply with the notification requirements prescribed by Polish law.

As of the date of this Prospectus, the State Treasury held 30,385,253 shares in PZU, which constitutes 35.2 per cent of PZU's share capital and confers the right to 30,385,253 votes at PZU's general meeting. In accordance with current report 76/2015 published 1 July 2015 Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (Aviva Open-End Pension Fund Aviva BZ WBK) (“**Aviva OFE**”) announced that it had acquired 5.6 per cent of PZU's shares. These are the only two shareholders of PZU which have notified a holding of, or in excess of, 5 per cent.

Under PZU's statute, none of the shareholders (other than the State Treasury) may exercise more than 10 per cent of the total number of votes at PZU's general meeting. This limitation also applies to entities which, when acting together, have more than 10 per cent of the votes at the general meeting.

This limitation will also not apply to the shareholders if the State Treasury reduces its holding to less than 5 per cent of the shares in PZU.

Under PZU's statute, half of the members of the Supervisory Board appointed by the General Meeting must be chosen from candidates nominated by the shareholder that holds the highest stake in PZU's share capital, which is currently the State Treasury. Such right terminates if such shareholder's stake in PZU's share capital drops below 20 per cent of the voting rights. Additionally, the State Treasury may appoint one additional member of the Supervisory Board and this appointment does not require the General Meeting's resolution. These rights currently give the State Treasury representatives a majority in the Supervisory Board. As a result, the State Treasury representatives in the Supervisory Board have the ability to appoint the members of the Management Board without the consent of the other members of the Supervisory Board.

The table below sets out information on the shareholding structure of PZU as of the date of this Prospectus based on the most recent notifications made to PZU.

	Number of shares	per cent of voting rights at the general meeting
State Treasury	30,385,253	35.19
Aviva OFE	4,842,000	5.61
Other shareholders	51,125,047	59.20
Total	86,352,300	100.00

IT AND OPERATIONS

The Group has several IT systems, including systems for policy administration, claims handling, financial assets management, accounting, IT and HR support. The IT infrastructure meets market standards and is protected with regularly tested business continuity solutions (including a remote facility), data backup procedures, off site data storage, and sophisticated cyber-crime prevention software.

Currently, PZU is implementing a new IT system for non-life insurance products. Full implementation of the new system is expected by the middle of 2016. As of 30 June 2015, the system operates in several regions in Poland and approximately 7.5 million insurance policies have already been issued using it. The aim of the project is to improve PZU's product offering and to facilitate management of PZU's relations with its customers and decrease the time taken to launch new products.

LITIGATION

Claim of Manchester Securities Corporation relating to the resolution of PZU's General Meeting on the distribution of profit for the financial year 2006

With the statement of claim of 30 July 2007, proceedings were launched under a lawsuit filed by Manchester Securities Corporation against PZU to repeal resolution No. 8/2007 adopted by PZU's General Meeting on 30 June 2007 on distributing PZU's profit for the financial year 2006 on the grounds that it is contrary to best practices and aimed at injuring the plaintiff, a PZU shareholder.

The challenged resolution adopted by PZU's General Meeting distributed the net profit for 2006 of PLN 3,280,883 thousand in the following manner:

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

In its judgment of 22 January 2010, the Regional Court in Warsaw repealed in its entirety the aforementioned resolution. On 17 February 2010, PZU submitted an appeal challenging the judgment of the Regional Court in Warsaw in its entirety.

The Appellate Court in Warsaw, in its judgment handed down on 6 December 2011, dismissed in its entirety PZU's appeal against the judgment of the Regional Court in Warsaw of 22 January 2010. On the date of announcing the judgment issued by the Appellate Court, the Regional Court judgement of 22 January 2010 repealing the resolution became final and legally binding.

On 7 December 2011, PZU submitted a petition for preparing a written justification of the judgment of the Appellate Court in Warsaw of 6 December 2011. On 2 April 2012, the Court's judgement and its justification were served on PZU. On 29 May 2012, PZU filed a cassation complaint in which the Appellate Court judgement of 6 December 2011 was appealed in full. At the session of 27 March 2013, the Supreme Court announced its judgment in which it dismissed the cassation complaint and ordered PZU to pay the costs of the proceedings, including the costs of legal representation. According to the provisions of the Code of Civil Procedure, the judgment of the Supreme Court is final and is not subject to further appeal.

According to PZU, repealing the aforementioned resolution will not cause the shareholders to obtain a valid claim for PZU to pay a dividend, but no assurance can be given that a court, if asked to do so, would not rule otherwise.

Notwithstanding the foregoing, in connection with the judgment repealing this resolution having become legally binding, an item was included in the agenda of PZU's General Meeting on 30 May 2012 to adopt a resolution on distributing PZU's net profit for the 2006 financial year.

The Management Board recommended that the General Meeting of PZU distribute profits for the 2006 financial year in a manner corresponding to the distribution of profits based on the repealed resolution because after its adoption, PZU paid a dividend for 2009 including the funds retained by PZU on the basis of that resolution.

On 30 May 2012, PZU's General Meeting adopted a resolution to distribute the profit for the financial year 2006 in a manner reflecting the distribution of profits effected on the basis of the repealed resolution. Manchester Securities Corporation filed an objection against the resolution of 30 May 2012. The objection was recorded in the minutes of the General Meeting.

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

On 17 December 2013, the Regional Court passed a verdict in which it accepted the claim in its entirety and awarded the costs of proceedings from PZU to Manchester Securities Corporation. On 4 March 2014, PZU filed an appeal against the above verdict, contesting it in its entirety. On 11 February 2015 the Court of Appeal dismissed Manchester Securities Corporation's claim. On 9 June

2015 Manchester Securities Corporation lodged a cassation appeal with the Supreme Court. PZU petitioned the Supreme Court to dismiss the cassation appeal.

As of 30 June 2015, no changes have been made to the presentation of PZU's equity that could potentially stem from the repeal of the aforementioned resolution, including the line items "Supplementary capital" and "Retained earnings (losses)", the funds in the Company's Social Benefits Fund were not adjusted and no provisions were established for any potential additional claims stemming from the repeal of the aforementioned resolution.

On 23 September 2015 PZU received a copy of the statement of claim with schedules thereto in a new lawsuit instituted by Manchester Securities Corporation against PZU for payment of PLN 169,328,469 with statutory interest accruing from 2 January 2015 until the payment date. The case is pending before the Regional Court in Warsaw. The plaintiff claims compensation arising from the set of facts described above. The court has given PZU one month to file its response to the statement of claim. PZU does not recognise the claims as included in the statement of claims and intends to vigorously defend the action.

General Litigation

To the best of PZU's knowledge, as of 30 June 2015, PZU and its subsidiaries were party to 77,323 court cases. To the best of PZU's knowledge, as of 30 June 2015, the total value of claims in which PZU is acting as a defendant was approximately PLN 2.8 billion, while the total value of claims brought by PZU was approximately PLN 514 million.

According to the information available to PZU, as of the date of this Prospectus, there is no administrative, civil, arbitration or criminal proceedings ongoing or pending against PZU or any other member of the Group which could individually or in the aggregate have a material adverse effect on the financial position of the Group or its operating results.

RECENT DEVELOPMENTS

Acquisition of Alior Bank S.A.

On 30 May 2015 PZU agreed to acquire 25.25 per cent of shares in Alior Bank S.A. ("**Alior Bank**") from Alior Lux S. à r.l. & Co. S.C.A. and Alior Polska sp. z o.o. The consideration payable is PLN 1.6 billion. The acquisition of shares in Alior Bank was subject to conditions precedent, including consents from the KNF, the OCCP and the Ukrainian Antimonopoly Authority. All conditions were fulfilled on 6 October 2015.

Alior Bank is a universal bank with innovative products and a high Return on Equity ratio (amounting to 12.4 per cent in 2014). In addition, the Cost/Income ratio amounted to 49.4 per cent in 2014 and was among the lowest in the banking market in Poland. Alior Bank has developed an effective operational platform. By the end of the June 2015, the value of loans granted to customers by Alior Bank amounted to PLN 28.3 billion, while the balance of deposits obtained from customers amounted to PLN 29.8 billion.

First half 2015 results

On 25 August 2015, the Group published the Interim Financial Statements which were not subject to audit by the Group's auditors. The table below shows a summary of the Group's reviewed, but unaudited, consolidated statement of financial position at 30 June 2015 and of its consolidated profit and loss account for the six months periods ended 30 June 2015 and 30 June 2014. The information in the table below is derived from the Interim Financial Statements.

Consolidated statement of financial position

	As at 30 June 2015
	<i>(PLN millions)</i>
Assets	66,080
Share capital.....	86
Capital and reserves attributable to holders of the parent's equity ...	11,852
Total equity	11,853

Consolidated profit and loss account

	Six months ended 30 June	
	2015	2014
	<i>(PLN millions)</i>	
Gross written insurance premium	9,126	8,438
Net earned premium.....	8,744	8,033
Revenue from commissions and fees.....	103	123
Net investment profit	1,058	1,370
Net insurance claims	(6,006)	(5,418)
Operating profit.....	1,637	2,236
Gross profit	1,619	2,176
Net profit attributed to holders of the parent's equity.	1,322	1,720

The Group achieved profit before tax in the first half of 2015 of PLN 1,619.0 million compared with PLN 2,176.2 million in the equivalent period in the first half of 2014 (a decrease of 25.6 per cent). Net profit attributable to the shareholders of the parent company amounted to PLN 1,321.6 million as at 30 June 2015, compared with PLN 1,720.4 million as at 30 June 2014 (a 23.2 per cent decrease). Excluding one-off events (such as the effect of the conversion of long-term insurance contracts into annual renewable contracts in type P group cover), the net result as at 30 June 2015 fell by 23.8 per cent compared with the previous year. In the first half of 2015, the operating profit amounted to PLN 1,637.0 million and which was PLN 598.7 million lower compared with the corresponding period of the previous year. This change was caused, in particular, by:

- the growth of gross written premiums due to increasing activity in foreign markets and premiums acquired by Link4 and the development of group protection insurance, partially offset by a drop in premiums from TPL insurance;
- a drop of PLN 144.1 million in profitability in the mass client insurance segment in the first half of 2015 compared with the first half of 2014. This decrease in profitability was mainly associated with an increase in the level of claims in motor insurance;
- a decrease in profitability in the area of group and individually continued insurance in the first half of 2015 of PLN 115.5 million, excluding the conversion effect, compared with the equivalent period in the previous year. This decrease in profitability was mainly due to an increase in the loss ratio arising from a higher mortality ratio in protection products, as confirmed by data from the GUS (the Polish Central Statistics Office);

- a lower net investment result related to an increase in treasury bond yields, partially offset by better profit on equity and derivative instruments; and
- the development activities aimed at implementing Strategy 3.0.

For the six month period ended 30 June 2015, the Group's rate of return on capital was 21.1 per cent.

MANAGEMENT AND EMPLOYEES

MANAGEMENT AND SUPERVISORY BODIES

In accordance with the Commercial Companies Code and the Insurance Act, PZU is managed by its Management Board and overseen by its Supervisory Board. The information provided below relating to the organisation, competencies and activities of the Management Board and the Supervisory Board has been prepared based on the provisions of the Commercial Companies Code, the Insurance Act and PZU's statute of the Guarantor.

Management Board

The Management Board is PZU's governing body.

The Management Board comprises at least three members appointed for a joint term of office of three years by the Supervisory Board. The Management Board is headed by the President.

All members of the Management Board must hold a degree. At least two members of the Management Board, including the President, must have a proven command of Polish. Additionally, at least two members of the Management Board, including the President, must have the experience necessary for managing an insurance company. Two members of the Management Board, including the President, are appointed with the consent of the KNF.

If there is an even number of members of the Management Board, then the President has a casting vote at the Management Board meetings.

The Management Board is responsible for:

- adopting long-term plans for development of PZU and the Group;
- adopting the financial plan;
- determining insurance premiums and the terms and conditions of insurance; and
- granting sureties and guarantees.

The members of the Management Board are set out below:

Name	Position
Andrzej Klesyk	President of the Management Board
Rafał Grodzicki	Member of the Management Board
Przemysław Dąbrowski	Member of the Management Board
Tomasz Tarkowski	Member of the Management Board
Dariusz Krzewina	Member of the Management Board
Witold Jaworski	Member of the Management Board

Andrzej Klesyk

Andrzej Klesyk is the Chief Executive Officer of PZU SA, since 2007.

He is a former Partner at the Boston Consulting Group, Warsaw, Poland and Chief Executive Officer of Bank Inteligo, Warsaw. He worked also for McKinsey&Co in London. In 1991 left for the US and worked for Kidder, Peabody, Coopers & Lybrand in New York. From 1989 to 1990 he worked at the Ministry of Economic Reform.

He graduated with an MBA from Harvard Business School, graduated with a master degree in Economy from Katolicki Uniwersytet Lubelski, Poland.

He is a member of Harvard Business School European Advisory Board, The Geneva Association, Board of Trustees of National Museum in Warsaw and Program Board of The Institute of Public Affairs.

Rafał Grodzicki

Rafał Grodzicki is a graduate of the Warsaw School of Economics and completed numerous training courses in management. He has extensive professional experience in the banking and insurance sector, including holding positions of Managing Director in the Small Enterprise Division in Citibank Handlowy, Coordinating Director on Agency Network Development in PZU and PZU Życie, Managing Director on Insurance Products and Head of the Mass Client Division in PZU and Management Board IPO Proxy in the PZU Head Office. Since 2013 he has been a member of the Audit Committee of the Polish Insurance Chamber (PIU) and Chairman of the Supervisory Board of the Insurance Guarantee Fund (UFG).

From August 2008 Rafał Grodzicki is a member of the PZU Życie Management Board. He became a Director in the Group in February 2010 and currently he is responsible for insurance operations, foreign operations (international activity) and the health business area. Since July 2015 he has been a member of the PZU Management Board.

Przemysław Dąbrowski

Przemysław Dąbrowski graduated from Warsaw University, Information Technology Department. He has an MBA from the University of Illinois and from the Warsaw-Illinois Executive MBA program. He has obtained a number of professional training qualifications in finance and accounting, including ACCA's Certified Diploma in Finance. He has been a member of the Management Board of PZU Życie since January 2010 and has been a member of the Management Board of PZU since December 2010. Przemysław Dąbrowski is in charge of the Financial Division.

Until 2010, he held various positions at the Head office of PZU and PZU Życie, including Planning and Controlling Director and Information Management Director. For over 13 years, he also held various financial management positions at Whirlpool Polska, AIG Poland, Creative Team (the Elektrim Group), AT Kearney and Accenture.

Tomasz Tarkowski

Tomasz Tarkowski has graduated from Warsaw University of Technology and Academy of Finance, obtaining a Master Degree in Automotive and Construction Machinery Engineering. Has also completed an Advanced Management Program at IESE Business School at the University of Navarra.

Since April 2011 he has been a member of the Management Board of PZU and PZU Życie, supervising Claims Handling and Assistance Division, as well as Innovations.

Cooperating with the Group since 1996, Mr. Tomasz Tarkowski for four years has performed a function on the PZU Ukraine Management Board member and the Supervisory Board of SOS Service Ukraine (a subsidiary of the Group).

Dariusz Krzewina

Dariusz Krzewina is a graduate of the Economic and Sociology Faculty at the University of Łódź. He also completed a post-graduate course of study on insurance at the Warsaw School of Economics. He has worked in the insurance industry for many years.

From 1993 to 1998 he was employed by PZU Życie. Between 2000 and 2001 he was employed by STUnŻycie ERGO HESTIA. From 2002 to 2004 he was employed by SAMPO TUnŻ. From October 2002 to June 2004 he acted as President of the Management Board and Sales Director. Since August 2004 he held the position of Director of the Group Insurance Department at PZU Życie, and from January 2006 he was Corporate Client Coordinating Director, then from March 2007 he acted in the capacity of Vice-President of PZU Życie Management Board. Between August 2007 and 28 September 2015 he served as a Chairman of the Management Board of PZU Życie. Since 29 September 2015 he has been a PZU Życie Management Board Member. From March 2013 he has been a Member of the PZU Management Board. He is responsible for the Corporate Client Division and Administration and Logistics.

Witold Jaworski

Witold Jaworski is a graduate of the Poznań University of Economics (Master of Economics), Fachhochschule für Wirtschaft in Berlin (scholarship), Eurekans Management Development Program, IESE Advanced Management Program and holds a Ph.D. in economics. Since 1995 he worked for Poznań University of Economics, Tillinghast Towers Perrin in Frankfurt, McKinsey & Company, Allianz Group and PZU Group. He held various positions at the head office of PZU and PZU Życie, including Managing Director of Insurance Products and Managing Director of the Mass Market Client Division. From December 2007 to December 2012 he was a PZU Management Board Member and Management Board Member of PZU Życie. Witold Jaworski also served as the Chairman of the Supervisory Board of the Insurance Guarantee Fund and a Member of the Audit Committee at the Polish Insurance Association.

From April 2013 to February 2015 he served in the capacity of President of the Management Board of Towarzystwo Ubezpieczeń i Reasekuracji Allianz Polska and Towarzystwo Ubezpieczeń Allianz Życie Polska.

Since September 2015 he has been a PZU Management Board member and PZU Życie Management Board member and since 28 September 2015 he has served as Chairman of the PZU Życie Management Board.

The business address of all members of the Management Board is al. Jana Pawła II 24, 00-133 Warsaw, Poland. No member of the Management Board has any actual or potential conflict of interest between his duties to PZU and his private interests and/or other duties.

Supervisory Board

The Supervisory Board exercises regular supervision over the Group's operations.

The Supervisory Board comprises not less than seven and not more than eleven members elected by the General Meeting for a joint term of office of three years. The State Treasury has the right to appoint one member of the Supervisory Board.

The number of members of the Supervisory Board is determined by the general meeting of shareholders. At least one Supervisory Board Member must be an independent member. The Supervisory Board elects its Chairman and Deputy Chairman from its members.

The responsibilities of the Supervisory Board include, among others:

- reviewing the Management Board's annual report and the Group's annual financial statements;
- concluding, amending and terminating agreements with members of the Management Board;
- appointing, suspending and dismissing members of the Management Board;
- delegating members of the Supervisory Board for temporary positions on the Management Board; and
- approving the long-term development plans prepared by the Management Board.

The Supervisory Board hold its meetings at least once each calendar quarter. For resolutions passed at Supervisory Board meetings to be valid, at least half of the members must be present at the meeting and all members must be invited. In certain cases, a resolution may be adopted in writing or a member of the Supervisory Board may vote via another member. Passing a Supervisory Board resolution requires a majority of votes and, if there are an even number of votes, the Chairman has the deciding vote.

The Supervisory Board appoints the audit committee and may appoint an appointment and compensation committee and a strategy committee. The members of the committees carry out particular supervision activities. The exact scope of responsibilities of a committee is set out in the resolution of the Supervisory Board appointing the committee.

The table below sets out information on the members of the Supervisory Board.

Name	Position
Zbigniew Ćwiąkowski	Chairman of the Supervisory Board
Paweł Kaczmarek	Deputy Chairman of the Supervisory Board
Dariusz Filar	Secretary of the Supervisory Board
Zbigniew Derdziuk	Member of the Supervisory Board
Dariusz Kacprzyk	Member of the Supervisory Board
Jakub Karnowski	Member of the Supervisory Board
Aleksandra Magaczewska	Member of the Supervisory Board

Alojzy Nowak

Member of the Supervisory Board

Maciej Piotrowski

Member of the Supervisory Board

Zbigniew Ćwiąkalski

Zbigniew Ćwiąkalski graduated from the Faculty of Law at the Jagiellonian University in Cracow in 1972. He was an academic teacher at the Jagiellonian University and the School of Law and Public Administration in Przemyśl/Rzeszów. Since 1998, he has been a partner in T. Studnicki, K. Pleszka, Z. Ćwiąkalski, J. Górski, sp. k. law firm. From 2007 until early 2009, he was the Minister of Justice and the Attorney General. He has been a member of PZU's Supervisory Board since 10 June 2010.

Paweł Kaczmarek

Paweł Kaczmarek graduated from the Faculty of Law and Administration of Łódź University. From 1994 to 2014 he was associated with the Ministry of Finance. Currently, Mr. Kaczmarek serves as Deputy Director in the Key Companies Department of the State Treasury Ministry. His duties include coordination of the supervision exercised by the State Treasury Ministry over financial market institutions and entities operating in the chemical industry.

Moreover, Mr. Kaczmarek is Chairman of the Huta Pokój S.A. Supervisory Board. In the past, he was a member of a number of supervisory boards at various companies. He has been a member of PZU's Supervisory Board since 30 June 2015.

Dariusz Filar

Dariusz Filar obtained a degree in international trade from the University of Gdańsk in 1973. Originally he held a variety of academic positions at the University of Gdańsk, the Center for Russian and East European Studies (CREES), University of Michigan, Ann Arbor and at the Central European University. In 2004, he became a member of the Monetary Policy Council of the National Bank of Poland and in March 2010 was appointed to the Economic Council to the Prime Minister. He has extensive economic experience and was the Head Economist at Bank Pekao. He has been a member of PZU SA's Supervisory Board since 10 June 2010.

Zbigniew Derdziuk

Zbigniew Derdziuk graduated from the Sociology Institute of the University of Warsaw and, from 2009 to 2015, has been the President of the Management Board of ZUS. He has many years of experience in management positions, including directorships at Telewizja Polska, Telewizja Familijna and Vice President of the Management Board of Bank Poczty. He also worked as the Director of the Office of the Head of the Chancellery of Sejm, Secretary of State in the Chancellery of the Prime Minister, Head of the Government's Standing Committee and the Secretary of the Capital City of Warsaw. He has been a member of PZU's Supervisory Board since 30 June 2011.

Dariusz Kacprzyk

Dariusz Kacprzyk graduated from the Faculty of Internal Trade and Services of Warsaw School of Economics and completed a postgraduate MBA programme at the Koźmiński University.

He has been associated with the banking industry for over 20 years. Mr. Kacprzyk gained his knowledge and experience serving in managerial positions of leading financial institutions in the Polish market. He has previously worked as CEO of Bank Gospodarstwa Krajowego and from 2009 to 2013 he worked in BRE Bank as the Director of the Corporate Cooperation Department while

simultaneously sitting on the Bank Management Board's credit committee. He was also the coordinator of the Municipal Development Program organised by the World Bank and the Municipal Development Agency (Finance Minister's Foundation). He has been a member of PZU's Supervisory Board since 18 June 2014.

Jakub Karnowski

Jakub Karnowski is a doctor of economics. Graduate of the Warsaw School of Economics and the University of Minnesota, former fellow of The Margaret Thatcher Foundation in the London School of Economics.

From 1997 to 2000 he was head of the political office and an advisor to the finance minister. Then from 2000 to 2001 he advised PKPP „Lewiatan” on macroeconomic affairs. From 2001 to 2003 he was an advisor to the Governor of the National Bank of Poland (hereinafter NBP), while also being the Director of the Foreign Department at NBP in this period.

From 2003 to 2008 he worked in the World Bank Group in Washington D.C. as a Deputy Executive Director. From 2008 to 2012 he was the CEO of PKO TFI, and from 2010 to 2013 he was a member of the management board of CFA Society of Poland. Since April 2012 he has been the CEO of PKP. He has been a member of PZU's Supervisory Board since 18 June 2014.

Aleksandra Magaczewska

Aleksandra Magaczewska graduated from the Faculty of Law and Administration at the University of Silesia, majoring in law. She has held various positions in the Ministry of Economy from 16 February 2000 to 23 October 2006 ranging from assistant clerk to chief specialist in the following Departments: Industry Restructuring Department, Energy Security Department, Energy Department, Department of Supervised Entities and Subsidiaries, and from 24 October 2006 to 31 December 2011 as Deputy Director of the Department of Industry, and then Director of the Mining Department, as well as in the State Treasury Ministry as Director of the Restructuring Department. Moreover, she was the Supervisory Board Chairperson of Przedsiębiorstwo Eksploatacji Rurociągów Naftowych „Przyjaźń” and Supervisory Board Chairperson of KGHM Polska Miedź and Kompania Węglowa. She has been a member of PZU's Supervisory Board since 18 June 2014.

Alojzy Nowak

Alojzy Nowak graduated from the Warsaw School of Economics in 1984 and in 1992 from University of Illinois at Urbana - Champaign. Since 2002, he has been Professor of Economics and has previously completed studies at Exeter, the Free University of Berlin and RUCA. He worked as an advisor to the Prime Minister and the Minister of Agriculture and spent many years gaining professional experience working as dean at the Management Faculty of the University of Warsaw. He has been a member of PZU's Supervisory Board since 30 May 2012.

Maciej Piotrowski

Maciej Piotrowski graduated from Wrocław University of Technology in 1989 and completed post graduate courses in both Foreign Trade and Finance at the Wrocław University of Economics. From 2000 until 2008 he held various management and senior board positions at Bank of America (Poland), TP Invest, Towarzystwo Emerytalne Telekomunikacji Polskiej. From 2008, for over five years, He was the Vice President of the Management Board at Polish Air Traffic Agency. Currently Maciej Piotrowski is the Vice President of the Management Board at Towarowa Giełda Energii. He has been a member of PZU's Supervisory Board since 30 May 2012.

The business address of all members of the Supervisory Board is al. Jana Pawła II 24, 00-133 Warsaw, Poland. No member of the Supervisory Board has any actual or potential conflict of interest between his duties to PZU and his private interests and/or other duties.

EMPLOYEES

The table below presents the average number of employees in the Group for each of 2014 and 2013.

	1 January – 31 December 2014	1 January- 31 December 2013
Management Boards (number of members at 31 December)	77	42
Management	1,216	957
Advisors	2	11
Other employees	15,629	13,082
Total	16,924	14,092

In addition to salaries, the Group's employees in Poland are entitled to a range of benefits, including the Group's employee insurance programmes, an employee pension programme, health insurance, medical insurance and discounts on insurance products offered by the Group.

None of PZU's employees or the members of its Management Board participate in share option schemes or other similar programmes.

THE INSURANCE MARKET

Unless otherwise stated, all market information in this section is based on data published by KNF.

COMPARISON OF POLISH AND EUROPEAN INSURANCE SECTOR

According to the Statistics Report No. 50 “European Insurance in Figures” from 6 January 2015, an average Pole spends five times less on insurance than an average European. In 2013, the value of insurance premium per average Pole (density ratio) in Poland was EUR 361.8. In Europe, the density ratio in 2013 was EUR 1,882.7. Over half of the insurance premiums of both an average Pole and an average European are paid towards life insurance.

With respect to the level of the premium compared with GDP (penetration ratio), Poland is below the European average. This suggests that the Polish market still has growth potential. The penetration ratio for Poland is half the European average penetration ratio and less than one third of the penetration ratio in the United Kingdom.

Central and Eastern European countries, such as Estonia and Latvia, in which PZU is present, also have a low penetration ratio which suggests that there are also opportunities for PZU to grow its business in those countries.

THE NON-LIFE INSURANCE MARKET IN POLAND

The non-life insurance market in Poland measured by gross written premiums grew by an annual average of 4.5 per cent between 2009 and 2014 and its value in 2014 was PLN 26.3 billion, of which the Group accounted for PLN 8.4 billion. Currently the market is split almost evenly between individuals and corporates. In terms of products, there is an even split between motor insurance and other non-life insurance, with property insurance being the second largest category and also the fastest growing segment in 2013. As of 31 December 2014, the Group collected 33.1 per cent of the non-life insurance gross written premiums in Poland, 79.1 per cent of such premiums being collected by five insurance groups (out of a market comprising 31 companies).

In 2014, the technical result of the whole non-life insurance market in Poland was PLN 0.8 billion, of which, according to the 2014 Financial Statements, the Group accounted for PLN 0.5 billion.

THE LIFE INSURANCE MARKET IN POLAND

The value of the life insurance market in Poland in 2014, measured in terms of gross written premiums, was PLN 28.7 billion. The market is experiencing a fall in single premium insurance and, at the end of 2014, its share of total market gross written premium amounted to 42.5 per cent.

In 2014, 67.8 per cent of the life gross written premiums were collected by five insurance groups. For regular premium life insurance, which is the most important segment for the Group, PZU Życie collected 42.8 per cent of the life regular gross written premiums in Poland, with 72.0 per cent of such premiums being collected by five insurance groups (out of a market comprising 22 companies).

The technical result of the whole life insurance market in Poland in 2014 was PLN 3.3 billion, of which PZU Życie accounted for PLN 2.1 billion, a market share of 64.3 per cent. In 2014, the net result of the whole life insurance market in Poland was PLN 3.1 billion, of which, according to the 2014 Financial Statements, PZU Życie accounted for PLN 1.9 billion.

INVESTMENT FUNDS IN POLAND

According to the Chamber of Asset Managers, as of 31 December 2014, the investment funds in Poland managed assets worth PLN 209.0 billion. At the same date, 39 investment funds companies managed 760 investment open-ended and closed-ended funds.

In 2014, the average rate of return of investment funds in Poland varied from 32.8 per cent for funds investing in shares quoted on the Turkish stock market to 7.2 per cent for funds investing in Polish Treasury bonds to -33.4 per cent for funds investing in shares quoted on the Russian stock market.

PENSION FUNDS IN POLAND

As of 31 December 2014, PTE PZU had a market share of 13.1 per cent measured in terms of assets of open-end pension funds, the third largest share at that date.

As of 31 December 2014, the value of pension fund assets was PLN 19.6 billion, a decrease of 51.3 per cent compared to 31 December 2013 (mainly as a result of the pension fund reform).

BALTIC COUNTRIES

According to the Lithuanian central bank's data, the gross written premium of Lithuanian non-life insurance companies as of 31 December 2014 was EUR 387.2 million. As at 31 December 2014, 11 non-life insurance companies (including nine branches of insurance companies registered in another Member State) were operating in Lithuania. The gross written premium of life insurance companies in Lithuania as at 31 December 2014 was EUR 215.0 million. Nine life insurance companies (including four branches of insurance companies registered in another Member State) were operating in Lithuania.

In 2014, the non-life insurance companies in Latvia collected a gross written premium of EUR 240.1 million. 13 non-life insurance companies were operating in Latvia as at 31 December 2014.

According to the data for 31 December 2014, the total value of the gross written premiums on the Estonian non-life insurance market was EUR 261.4 million. At the end of 2014, ten companies (including four branches of insurance companies registered in another Member State) were operating in the non-life insurance market in Estonia.

UKRAINE

According to the State Commission for Regulation of Financial Services Markets of Ukraine, as at 31 December 2014, the gross written premiums in the non-life insurance market in Ukraine was UAH 24.6 billion. Life insurance companies collected UAH 2.2 billion of gross written premiums.

REGULATION

PZU continually monitors legislative developments relating to insurance both in the countries where it operates and at a European Union level. Where appropriate, PZU participates in the legislative process through representations made through the Polish Insurance Chamber, the Insurance Guarantee Fund and other relevant industry organisations. PZU also monitors judicial decisions which affect the insurance industry and adapts its internal procedures and regulations and its standard conditions and agreements so that they remain in compliance with new regulations and judicial interpretations.

POLAND

THE INSURANCE ACT

The framework of current Insurance Act introduced in Poland on 22 May 2003 is based on Solvency I.

According to the Insurance Act, an insurance company cannot simultaneously engage in activities of life and non-life insurance.

Reinsurance activity is the activity connected with the acceptance of risk ceded by an insurance company and the subsequent retrocession of the risk accepted. Reinsurance is also regulated by the Insurance Act.

In addition to voluntary insurance, there are certain types of mandatory insurance. This comprises:

- third party liability insurance for owners of motor vehicles against traffic-related damage;
- third-party liability insurance for farm owners;
- insurance of farmstead buildings against fire and other natural disasters; and
- insurance following from other acts or international agreements ratified by Poland.

In principle an insurance company may not engage in any activities other than insurance activities or strictly related activities.

Insurance companies may operate only as joint stock companies or mutual insurance societies. Persons sitting on the management board or supervisory board of an insurance company should meet the detailed criteria set out in the Insurance Act. In particular, only a natural person who has the full capacity to perform legal acts, whose qualifications guarantee the performance of his duties and who has not been convicted of an intentional offence may be a member of the corporate bodies of a parent insurance entity with its registered office in Poland. The appointment of two management board members, including the president of the management board, requires KNF's consent, unless the appointment concerns persons who acted as management board members during the preceding term.

The Insurance Act also regulates the provision of insurance services both regarding Polish insurance companies which intend to engage in insurance activity in another Member State, and insurance companies from other Member States which plan to engage in insurance activity in Poland.

An insurance company is obliged to have equity at least equal to its solvency margin and guarantee capital. The Solvency Margin Ordinance specifies the manner of calculating the amount of the solvency margin and the minimum guarantee capital for particular classes and groups of insurance.

Depending on the type of activity pursued by an insurance company, the solvency margin is calculated in a way applicable to the given type of activity.

An insurance company has to hold assets meeting the requirements set out in the Insurance Act, in an amount not lower than the gross value of technical reserves, such technical reserves being held to cover current and future liabilities that may ensue from the signed insurance contracts.

The Insurance Act also regulates an insurance company's investment activity. The main goal of investment activity of insurance companies is to attain the highest degree of security and return while maintaining liquidity of funds. The Insurance Act contains restrictions concerning the object, subject and amount of insurance funds that may be invested. Furthermore, the Insurance Act specifies the maximum percentage share of the insurance fund that may be committed to individual types of investments.

Assets covering the technical provisions should be properly diversified and dispersed so that they are not related to one type of asset or one entity only and they should not be charged with liabilities other than resulting from the insurance contracts. The due date of assets covering the technical provisions should be adjusted to the due date of liabilities arising from insurance contracts. The Insurance Act provides a catalogue of assets which may cover the technical provisions.

INSURANCE INTERMEDIATION ACT

The principles of insurance intermediation regarding casualty and property insurance are specified in the Act dated 22 May 2003 on Insurance Intermediation (the **Insurance Intermediation Act**). Insurance intermediation services may only be supplied by insurance agents or insurance brokers, with reinsurance-related brokerage being provided only by insurance brokers holding a license for engaging in such activities (reinsurance brokers).

An insurance agent is an entrepreneur conducting agency activities under an agency agreement signed with an insurance company and entered into the register of insurance agents. An insurance broker is a natural or legal person holding a license for engaging in brokerage activity, issued by the KNF, and entered into the register of insurance brokers. The insurance intermediaries are entered into a publicly register maintained by the KNF.

SOLVENCY II

Currently work on implementation of a new Insurance Act implementing Solvency II ("Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking –up and pursuit of the business of Insurance and reinsurance (Solvency II)") regulations is being conducted.

According to the proposed new Insurance Act, the method of calculation of Own funds and Solvency Capital Requirement will change to a risk driven approach. A major difference between the Solvency I and Solvency II requirements is market risk. Additionally, the new regulation ends the requirement for assets covering technical provisions.

THE KNF

In relation to the insurance activity, supervision is exercised by the KNF and covers in particular:

- issuing permits to conduct insurance activities;
- assessing the financial position of the insurance companies, including the levels of their own funds, reserve capital and technical reserves;

- assessing the compliance of insurance activities with relevant regulations; and
- examining the proper composition of the corporate bodies of an insurance company.

The KNF has wide powers when supervising insurance companies. For example, the KNF may:

- request an insurance company to appoint auditors to review the insurance company's accounts and compliance with the capital requirements;
- demand from an insurance company detailed information about its activities, including forms of insurance agreements and tariffs;
- request information from entities not conducting insurance activities, but being members of an insurance group;
- issue guidelines and recommendations;
- impose fines; and
- withdraw the license to conduct insurance activities.

OTHER SUPERVISORY AUTHORITIES

Some areas of insurance operations are subject to the supervision of other public administration authorities, the most important of which are as follows:

- the President of the Office of Consumer and Competition Protection regarding protecting market competition and consumers' collective rights;
- the General Inspector for Personal Data Protection with respect to collecting, processing, managing and protecting personal data; and
- the Minister responsible for financial institutions and the General Inspector for Financial Information with respect to the prevention of money laundering and financing of terrorism.

CONSUMER PROTECTION

The Civil Code and other consumer protection laws impose obligations on insurance companies when contracting with consumers. The most important of these is a prohibition on including particular clauses which are unfavourable to consumers in contracts with consumers. These clauses, if included in an agreement signed with a consumer, are not binding on the consumer.

PERSONAL DATA PROTECTION

In light of the large numbers of individuals serviced by insurance companies, all regulations concerning personal data protection are of particular importance to insurance businesses. Personal data may be processed exclusively in compliance with specific regulations, while applying technical and organisational means that ensure the protection of personal data, particularly from disclosure to any unauthorised parties. Additionally, the persons to which such data relates should have right to access all of their personal data and to correct it.

TAXATION

The following is a general summary of the Swedish, Polish and EU tax consequences as at the date hereof in relation to payments made under the Notes in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Kingdom of Sweden

The following summary outlines certain Swedish tax consequences to holders of Notes who are not residents of Sweden for income tax purposes. Purchasers are urged to consult their professional advisers as to the tax consequences of acquiring, holding or transferring Notes.

Under Swedish law as presently in effect, payments of any principal or any amount that is considered to be interest for Swedish tax purposes to the holder of any Note will not be subject to Swedish income tax, provided that such holder is neither resident in Sweden for tax purposes nor engaged in trade or business in Sweden through a permanent establishment to which the Notes are effectively connected.

Swedish law, as presently in effect, does not provide for deduction or withholding for or on account of taxes on payments of any principal or interest to the holder of any Notes, except on payment of interest, and any other yield on any Notes which is paid at the same time as interest, to a holder who is a private individual (or an estate of a deceased individual) with tax residence in Sweden.

Republic of Poland

The following is a discussion of certain Polish tax considerations relevant to an investor resident in Poland or which is otherwise subject to Polish taxation. This statement should not be deemed to be tax advice. It is based on Polish tax laws and, as its interpretation refers to the position as at the date of this prospectus, it may thus be subject to change including a change with retroactive effect. Any change may negatively affect tax treatment, as described below. This description does not purport to be complete with respect to all tax information that may be relevant to investors due to their personal circumstances. Prospective purchasers of the Notes are advised to consult their professional tax advisor regarding the tax consequences of the purchase, ownership, disposal, redemption or transfer without consideration of the Notes. The information provided below does not cover tax consequences concerning income tax exemptions applicable to specific taxable items or specific taxpayers (e.g. domestic or foreign investment funds).

The reference to "interest" as well as to any other terms in the paragraphs below means "interest" or any other term as understood in Polish tax law.

Income Tax

Taxation of Polish tax resident individuals (natural persons)

Under Article 3.1 of the Polish Personal Income Tax Act dated 26 July 1991, as amended (the **PIT Act**), natural persons are subject to tax liability affecting their entire income (revenues) regardless of the location of the source of such revenues (unlimited tax liability) if they have their place of residence in the territory of the Republic of Poland. A person whose place of residence is in the Republic of Poland is the natural person who:

- has his/her centre of personal or economic interests (centre of life interests) within the territory of the Republic of Poland; or

- is present in the territory of the Republic of Poland for more than 183 days in a tax year (Article 3.1a of the PIT Act).

These rules apply without prejudice to double taxation conventions signed by the Republic of Poland (Article 4a of the PIT Act).

Capital gains from disposal of the Notes

Capital gains from disposal of the Notes, derived by a Polish tax resident individual from the Notes held as non-business assets, are not cumulated with general income subject to progressive tax rates and are subject to 19 per cent. flat-rate tax. Additionally, no tax is withheld by a tax remitter, but the tax should be settled by the taxpayer by 30 April of the following year.

If an individual holds the Notes as a business asset, in principle, the income should be taxed in the same way as other business income. The tax, at 19 per cent. flat rate or the 18 per cent. to 32 per cent. progressive tax rate depending on the choice and certain conditions being met by the individual, should be settled by the individual himself/herself.

Withholding tax on interest (including discount) income

According to Article 30a.1.2 of the PIT Act, interest income, including discounts, derived by a Polish tax resident individual (as defined above) does not cumulate with general income subject to the progressive tax rate but is subject to 19 per cent. flat-rate tax.

Withholding tax incurred outside Poland (including countries which have not concluded a tax treaty with Poland), up to an amount equal to the tax paid abroad, but not higher than 19 per cent. tax on the interest amount, could be deducted from the Polish tax liability. Double tax treaties in particular can provide other methods of withholding tax settlements.

Under Art. 41.4 of the PIT Act, the interest payer, other than an individual not acting within the scope of his/her business activity, should withhold the 19 per cent. Polish tax upon any interest payment. In practice, the obligation to withhold tax applies only to Polish interest payers and not foreign payers. Under the Art. 41.4d of the PIT Act, tax on interest or discount on securities is withheld by entities keeping securities accounts for taxpayers, in their capacity as tax remitters, if the income (revenue) is earned in the territory of Poland and is associated with the securities registered in these accounts, and, further, if relevant payments are made to the taxpayers through those entities. However, given that the interest on Notes may be classified as not earned in Poland and the term "person making the interest payment" is not precisely defined in the law, under some interpretations issued by the Polish tax authorities, in certain cases Polish banks or Polish brokerage houses maintaining securities accounts may refuse to withhold the tax based on the fact that they are acting only as an intermediary and therefore should not be obliged under Polish law to remit due tax. According to Article 45.3b of the PIT Act, if the tax is not withheld, the individual is obliged to settle the tax himself/herself by 30 April of the following year.

If a Polish tax resident individual holds the Notes as a business asset, in principle, interest should not be subject to withholding tax but taxed in the same way as other business income. The tax, at 19 per cent. flat rate or the 18 per cent. to 32 per cent. progressive tax rate depending on the choice and certain conditions being met by the individual, should be settled by the individual himself/herself.

Taxation of a Polish tax resident corporate income taxpayer

A Polish tax resident, i.e. corporate income taxpayer having its registered office or place of management in Poland should be subject to 19 per cent. income tax on the Notes (both on any capital gain and on interest/discount) following the same principles as those which apply to any other income

received from business activity. As a rule, for Polish income tax purposes, interest is recognised as taxable revenue on a cash basis, that is when it is received and not when it has accrued. In respect of capital gains, the cost of acquiring the Notes should be recognised at the time the revenue is achieved. The taxpayer independently (without the involvement of the tax remitter) settles tax on interest (discount) or capital gains on Notes, which is aggregated with other income derived from business operations conducted by the taxpayer.

Notes held by a non-Polish tax resident individual or corporate

Non-Polish tax residents are:

- natural persons if they do not have their place of residence in the territory of the Republic of Poland (Art. 3.2a of the Pit Act); and
- corporate income taxpayer s if they do not have its registered office or place of management in Poland Art. 3.2 of the Polish Corporate Income Tax Act dated 15 February 1992, as amended (the **CIT Act**).

Non-Polish residents are subject to Polish income tax only on their income earned in Poland. Although there are no clear provisions of Polish tax law, if the Notes are issued by a foreign entity, in principle, interest should not be considered as having been earned in Poland. Capital gains should also not be considered as arising in Poland unless the securities are traded on a stock exchange in Poland (the Warsaw Stock Exchange). However, if the latter is the case, most of the tax treaties concluded by Poland provide for Polish tax exemption on capital gains earned in Poland by a foreign tax resident. In order to benefit from a tax treaty, a foreign investor should present a relevant certificate of its tax residency.

Certain payments (those corresponding to interest) made by the Guarantor may be subject to Polish withholding tax if they were classified by the tax authorities as interest derived from Poland. If this was the case, domestic 19 per cent. (in case of non-resident individuals) or 20 per cent. (in case of non-resident corporates) withholding tax would apply unless the interest recipient benefitted from a reduced rate or an exemption under the relevant double tax treaty. In order to benefit from a reduced rate or an exemption under the relevant double tax treaty, the interest recipient would need to produce the relevant certificate of tax residency (other documents may be required in specific cases).

If a foreign recipient of income acts through a permanent establishment in Poland, to which the interest is related, as a matter of principle it should be treated in the same manner as a Polish tax resident.

PCC – Tax on Civil Law Transactions

PCC is levied on civil law transactions, such as a sale or exchange of rights, if such rights are exercisable in Poland or, if exercisable abroad and the acquirer is a Polish resident and the transaction is carried out in Poland. As a rule, given that the issuer is a non-Polish entity, the Notes should not be considered as rights exercisable in Poland.

Neither an issuance of Notes nor redemption of Notes is subject to PCC.

PCC on the sale or exchange of Notes (which, as a rule are considered to be rights) is 1 per cent. of their market value. It is payable within 14 days after the sale or exchange agreement has been entered into. PCC on sale of the Notes is payable by the entity acquiring the Notes. In the case of exchange agreements, PCC should be payable by both parties jointly and severally. However, if such agreement has been entered into in notarial form, the tax due should be withheld and paid by the notary public.

The sale of the Notes: (i) to investment firms or foreign investment firms, (ii) made with the intermediation of investment firms or foreign investment firms; (iii) made through organised trading, or (iv) made outside an organised trading by investment firms or foreign investment firms if the proprietary rights were acquired by those firms through organised trading, as defined in the Act on Trading in Financial Instruments, is exempt from PCC.

Tax on Inheritance and Donations

Tax on inheritance and donations is levied on the acquisition by natural persons of property located, and economic rights (including securities) exercised in Poland, by way of among others, inheritance, ordinary legacy, further legacy, legacy *per vindicationem*, bequest, donation or donor's order. The tax on inheritance on donations is also imposed on the acquisition of property located abroad or of property rights exercised abroad if, on the date of the opening of the succession or conclusion of a donation agreement, the acquirer was a Polish citizen or had a permanent residence in Poland.

The tax liability is born by the person acquiring the property or economic rights. The tax base is, usually, the value of the acquired property and economic rights, after the deduction of any debts and encumbrances (net value), determined as at the date of acquisition and at the market prices prevailing on the date on which the tax obligation arises.

The rates of the tax on inheritances and donations vary and are determined by the degree of consanguinity or affinity or any other personal relationship between the heir and the testator or the donor and the donee.

The taxpayers are required to file, within one month of the date on which the tax liability arose, a tax return disclosing the acquisition of property or economic rights on an appropriate form with the head of the relevant tax office. The tax is payable within 14 days of receiving the decision of the head of the relevant tax office assessing the amount of the tax liability. If the agreement is concluded in the form of a notarial deed, the tax on inheritance and donations shall be collected and remitted by the notary public.

Securities acquired by close relatives (a spouse, descendants, ascendants, stepchildren, siblings, stepfather and stepmother) are tax-exempt subject to filing an appropriate notice with the head of the relevant tax office in due time. The aforementioned exemption applies if, at the time of acquisition, the acquirer was a citizen of any of the EU (EEA) member state.

Tax is not levied on an acquisition of economic rights exercised in the territory of Poland (including securities) if on the date of such acquisition neither the transferee nor the decedent nor donor were Polish citizens and had no place of permanent residence or registered office in the territory of the Republic of Poland .

Remitter's Liability

Under Art. 30.1 of the Tax Ordinance dated 29 August 1997, as amended, a remitter which has not carried out its obligation to calculate and withhold due tax from a taxpayer, and to transfer the appropriate amount of tax to a relevant tax office, is liable for tax not withheld or tax withheld but not transferred to a relevant tax office. The remitter is liable for those obligations with all of its assets. The provisions on the remitter's liability do not apply only if separate provisions provide otherwise or if the tax has not been withheld due to the taxpayer's fault.

The EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), EU Member States are required to provide to the tax authorities of

other EU Member States details of certain payments of interest or similar income paid or secured by a person established in an EU Member State to or for the benefit of an individual resident in another EU Member State or certain limited types of entities established in another EU Member State.

For a transitional period, Austria is instead required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the Council of the European Union adopted a Council Directive (the **Amending Directive**) amending and broadening the scope of the requirements described above. The Amending Directive requires EU Member States to apply these new requirements from 1 January 2017 and if they were to take effect the changes would expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. They would also expand the circumstances in which payments must be reported or subject to withholding. This approach would apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

However, the European Commission has proposed the repeal of the Savings Directive from 1 January 2017 in the case of Austria and from 1 January 2016 in the case of all other EU Member States (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates). This is to prevent overlap between the Savings Directive and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the Savings Directive, although it does not impose withholding taxes. The proposal also provides that, if it proceeds, EU Member States will not be required to apply the new requirements of the Amending Directive.

The Proposed Financial Transactions Tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of

which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Banco Santander, S.A., Deutsche Bank AG, London Branch, Goldman Sachs International, Merrill Lynch International and Société Générale (the “**Joint Lead Managers**”) have, pursuant to a subscription agreement dated 15 October 2015 (the “**Subscription Agreement**”), jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the New Notes. The Issuer has agreed to pay to the Joint Lead Managers certain commissions and to reimburse them for certain of their expenses in connection with the issue of the New Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

To the extent permitted by local law, the Joint Lead Managers, the Issuer and the Guarantor have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the New Notes purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the New Notes is consistent with its investment objectives.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from the registration requirements of the Securities Act. The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations.

In addition, until 40 days after commencement of the offering, an offer or sale of New Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has severally represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended (the “**FSMA**”)) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Poland

This document has not been and will not be notified to or approved by the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*). The Notes may not be offered or sold in or into Poland except under circumstances that do not constitute a public offering defined under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies of July 29, 2005, as amended.

Sweden

This Prospectus has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (*lagen (1991:980) om handel med finansiella instrument*) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority (*Finansinspektionen*) nor any other Swedish public body has examined, approved or registered this Prospectus or will examine, approve or register this Prospectus. Accordingly, this Prospectus may not be made available, nor may the Notes otherwise be marketed or offered for sale, in Sweden other than in circumstances that constitute an exemption from the requirement to prepare a prospectus under the Swedish Financial Instruments Trading Act.

Each Joint Lead Manager has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy Notes or distribute any draft or final document in relation to any such offer, invitation or sale except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 108266155. The ISIN Number for the Notes is XS1082661551.

2. Listing and Admission to Trading

Application has been made to list the New Notes on the Irish Stock Exchange, through the Arthur Cox Listing Services Limited (the “**Listing Agent**”). The Listing Agent is acting solely in its capacity as listing agent for the Issuer in relation to the New Notes and is not itself seeking admission to the Official List or to trading on the Main Securities Market (the “**Market**”). It is expected that admission of the New Notes to listing on the Official List and to trading on the Main Securities Market will be granted on or about, or as soon as practicable after, 16 October 2015, subject only to the issue of the New Notes.

In connection with the application to admit the New Notes to the Irish Stock Exchange and to trading on the Market, copies of the constitutional documents being the Statute (*statut*) of the Guarantor and the Articles of Association of the Issuer will be deposited with the Paying Agent where such documents may be examined and copies obtained.

The Issuer estimates that the expenses associated with the listing of the Notes on the Official List and admission of the Notes to trading on the Market are expected to amount to approximately €4,891.20.

3. Authorisations

The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in Sweden and Poland in connection with the issue and performance of the Notes and the Guarantee. The issue of the New Notes was authorised by resolution of the Board of Directors of the Issuer passed on 13 October 2015 and the giving of the Guarantee by the Guarantor was authorised by resolution of the Supervisory Board of the Guarantor passed on 12 October 2015.

4. Significant or Material Adverse Change

There has been no significant change in the financial or trading position of the Guarantor since 30 June 2015 and there has been no significant change in the financial or trading position of the Issuer since 31 December 2014. There has been no material adverse change in the financial position or prospects of the Issuer and the Guarantor since 31 December 2014.

5. Litigation

Save as disclosed in this Prospectus on pages 77-79, neither the Issuer nor the Guarantor nor any of the Guarantor’s subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or of the Guarantor.

6. Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected in electronic format at the specified offices of each of the Paying and Transfer Agents during normal business hours:

- (a) the constitutional documents of the Issuer and the Guarantor being the Statute (*statut*) of the Guarantor and the Articles of Association of the Issuer;
- (b) the annual report and consolidated accounts of the Group for the financial years ended 31 December 2014 and 2013 including, in each case, the audit report relating to such accounts;
- (c) the unaudited interim consolidated accounts of the Group as at, and for the six months ended, 30 June 2015;
- (d) the Deed of Guarantee;
- (e) the Fiscal Agency Agreement;
- (f) the Subscription Agreement;
- (g) the Issuer-ICSDs Agreement; and
- (h) this Prospectus and any supplements thereto.

7. Auditors

KPMG AB (authorised and regulated by the Supervisory Board of Public Accountants – *Revisorsnämnden*) are the Issuer's auditors. Mårten Asplund has been appointed auditor in charge.

The Group's audited consolidated financial statements for the financial year ended 31 December 2014 contained in this Prospectus have been audited by Marcin Dymek, certified auditor, member of the National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów), license no. 9899, acting on behalf of KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k., entity authorised to audit financial statements entered on the list kept by the National Chamber of Statutory Auditors under no. 3546, in accordance with International Financial Reporting Standards and KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. rendered an unqualified audit report on such Group's audited consolidated financial statements for the financial year of 2014.

The Group's audited consolidated financial statements for the financial year ended 31 December 2013 contained in this Prospectus have been audited by Jacek Marczak, certified auditor, member of the National Chamber of Statutory Auditors (Krajowa Izba Biegłych Rewidentów), license no. 9750, acting on behalf of Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k., entity authorised to audit financial statements entered on the list kept by the National Chamber of Statutory Auditors under no. 73, in accordance with International Financial Reporting Standards and Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k. rendered an unqualified audit report on such Group's audited consolidated financial statements for the financial year of 2013.

The auditors of the Issuer or the Guarantor have no material interest in the Issuer.

8. Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

9. Other Relationships

Some of the Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer and/or the Guarantor and/or their respective affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or the Guarantor and/or their respective affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor and/or their respective affiliates routinely hedge their credit exposure to such entities consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer and/or the Guarantor and/or their respective affiliates, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

INDEX TO FINANCIAL STATEMENTS

Auditor's Review Report on the Condensed Interim Consolidated Financial Statements for the period ended 30 June 2015	F1
Condensed Interim Consolidated Financial Statements for the period ended 30 June 2015	F3
Audit Report for the financial year ended 31 December 2014	F99
Consolidated Financial Statements for the financial year ended 31 December 2014	F118
Audit Report for the financial year ended 31 December 2013	F305
Consolidated Financial Statements for the financial year ended 31 December 2013	F319
PZU Finance AB (publ) – Audit Report for the period from 28 May 2014 to 31 December 2014	F485
PZU Finance AB (publ) – Annual Report for the period from 28 May 2014 to 31 December 2014	F486



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**INDEPENDENT AUDITORS' REPORT
ON REVIEW OF THE
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD
FROM 1 JANUARY 2015 TO 30 JUNE 2015**

To the Shareholders and Supervisory Board of Powszechny Zakład Ubezpieczeń SA

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of Grupa Kapitałowa Powszechnego Zakładu Ubezpieczeń Spółka Akcyjna ("the Capital Group"), for which the parent company is Powszechny Zakład Ubezpieczeń SA with its registered office in Warsaw al. Jana Pawła II 24, as at 30 June 2015, which comprise:

- the interim consolidated statement of profit or loss for the three-month and six-month periods ended 30 June 2015,
- the interim consolidated statement of comprehensive income for the three-month and six-month periods ended 30 June 2015,
- the interim consolidated statement of financial position as at 30 June 2015,
- the interim consolidated statement of changes in equity for the six-month period ended 30 June 2015,
- the interim consolidated statement of cash flows for the six-month period ended 30 June 2015, and
- additional information to the condensed interim consolidated financial statements

further referred to as "the condensed interim consolidated financial statements".

Management of the parent company is responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with the IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements, based on our review.

Scope of Review

We conducted our review in accordance with the National Standard on Auditing no. 3 *General principles of review of the financial statements/ condensed financial statements and conducting of other assurance services* issued by the National Council of Certified Auditors and the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with national standards on auditing and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
registration number 3546
ul. Chłodna 51, 00-867 Warsaw

Signed on the Polish original

.....
Marcin Dymek
Key Certified Auditor
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Signed on the Polish original

.....
Stacy Ligas
Limited Liability Partner with power of
attorney

25 August 2015
Warsaw

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Condensed interim consolidated financial statements for
the period of 6 months ended 30 June 2015

Table of contents

Introduction	3
Interim consolidated statement of financial position	5
1. Interim consolidated statement of profit and losses	5
2. Interim consolidated statement of comprehensive income	7
3. Interim consolidated statement of financial position	8
4. Interim statement of changes in consolidated equity	10
5. Interim consolidated statement of cash flows	13
Additional information and explanatory notes to the condensed consolidated financial statements.....	15
1. About PZU and PZU Group.....	15
2. Management Board, Supervisory Board, and Directors of PZU Group	25
3. Key accounting principles (policy).....	26
4. Key estimates and judgments	32
5. Correction of errors from previous years	32
6. Significant events influencing the structure of the financial statements	33
7. Significant posperiod-balance sheet events	33
8. Additional notes and explanatory notes to the interim consolidated financial statements	35
9. Contingent assets and liabilities.....	71
10. Equity management	72
11. Segment reporting	74
12. Issues, redemption and repayment of debt and equity securities.....	83
13. Breach or default of significant provisions of the loans or other borrowing arrangements	83
14. Credit facility/loan collateral or guarantees given by PZU or its subsidiaries.....	83
15. Dividends	83
16. Disputes.....	83
17. Other information	89

Introduction

Compliance statement

The condensed interim consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("condensed consolidated financial statements" and "PZU Group", respectively) were prepared according to the International Financial Reporting Standards ("IFRS"), which were published and came into effect on 30 June 2015, including the requirements of International Accounting Standard 34 "Interim financial reporting" and the requirements specified in the Ordinance of the Minister of Finance dated 19 February 2009 on current and periodical securities submitted by issuers and conditions for recognizing information required by the legislation of a non-member state as equivalent (i.e. Journal of Laws of 2014, item 133) ("Ordinance on current and periodical information").

Entities within PZU Group maintain their accounting records in accordance with local GAAP, while the condensed interim consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Period covered by the condensed interim consolidated financial statements

These condensed interim consolidated financial statements have been prepared for a period of 6 months from 1 January to 30 June 2015.

The financial statements of subsidiaries cover the same reporting period as the statements of the parent entity.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. The functional currency of entities based in Lithuania, Latvia, Estonia and Sweden is the euro, while the functional currency of the entities based in Ukraine is the Ukrainian hryvnia.

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

Foreign exchange rates

The financial data of foreign entities are converted into PLN:

- assets and liabilities – at the average exchange rates published by the National Bank of Poland effective at the end of the reporting period;
- statement of profit and losses items and other comprehensive income items – at the arithmetic mean of the exchange rates published by the National Bank of Poland at the last day of each month of the reporting period.

Currency	1 January – 30 June 2015	30 June 2015	1 January – 31 December 2014	31 December 2014	1 January – 30 June 2014	30 June 2014
EUR	4.1341	4.1944	4.1892	4.2623	4.1784	4.1609
Lithuanian litas	n/a	n/a	1.2133	1.2344	1.2102	1.2051
Ukrainian hryvnia	0.1729	0.1780	0.2637	0.2246	0.2840	0.2562

Going concern

The condensed interim consolidated financial statements have been prepared based on the assumption that the PZU Group entities will operate as a going concern during the period of at least 12 months following the reporting period. As at the date of signing the condensed interim consolidated financial statements, there were no facts and circumstances indicating a risk to the entities of PZU Group ability to operate as a going concern during the 12 months after the reporting period due to the intended or forced discontinuation or material limitation of its current activities.

Discontinued activities

In the period of 6 months ended on 30 June 2015, PZU Group entities included in consolidation did not discontinue any significant activity.

Seasonality or cyclicity of operations

The business performed by PZU is neither of considerably seasonal nor cyclical nature to the extent that would justify application of the suggestions presented in point 21 IAS 34.

Interim consolidated statement of financial position

1. Interim consolidated statement of profit and losses

Consolidated statement of profit and losses	Note	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014 (restated)	1 January – 30 June 2014 (restated)
Gross written premiums	8.1	4,445,623	9,126,450	4,083,914	8,437,893
Reinsurers' share in gross written premiums		(22,861)	(92,391)	(57,099)	(118,073)
Net written premiums		4,422,762	9,034,059	4,026,815	8,319,820
Change in net unearned premium reserve		14,111	(290,146)	16,043	(287,221)
Net earned premiums		4,436,873	8,743,913	4,042,858	8,032,599
Revenue from commissions and fees	8.2	54,752	103,196	58,210	123,133
Net investment income	8.3	450,750	805,595	434,824	806,076
Net result on realization and impairment losses on investments	8.4	65,158	182,942	136,844	25,179
Net change in the fair value of assets and liabilities measured at fair value through profit or loss	8.5	(409,185)	69,219	256,149	539,209
Other operating income	8.6	202,722	369,462	143,017	244,867
Claims, benefits and change in technical provisions		(2,977,320)	(6,084,855)	(2,783,110)	(5,478,378)
Reinsurers' share in claims, benefits and change in technical provisions		16,817	78,494	29,189	60,291
Net claims and benefits	8.7	(2,960,503)	(6,006,361)	(2,753,921)	(5,418,087)
Change in valuation of investment contracts	8.8	6,479	(15,632)	(1,108)	(6,025)
Acquisition costs	8.9	(577,702)	(1,130,808)	(528,740)	(1,036,364)
Administrative expenses	8.9	(414,046)	(822,062)	(368,192)	(702,275)
Other operating expenses	8.10	(312,314)	(662,451)	(195,901)	(372,591)
Operating profit		542,984	1,637,013	1,224,040	2,235,721
Borrowing costs	8.11	(78,020)	(18,027)	(27,615)	(59,813)
Share in net profit of entities measured using the equity method		(215)	(32)	159	245
Gross profit		464,749	1,618,954	1,196,584	2,176,153
Income tax					
- current portion		(116,309)	(374,234)	(166,805)	(292,421)
- deferred portion		31,747	76,807	(69,861)	(163,371)
Net profit, including:		380,187	1,321,527	959,918	1,720,361
- profit attributable to equity holders of the parent entity		380,261	1,321,593	959,905	1,720,351
- profit (loss) attributable to non-controlling interest		(74)	(66)	13	10

Interim consolidated statement of profit and losses (cont.)

Consolidated statement of profit and losses	Note	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Net profit (loss) from continued operations attributable to equity holders of the parent entity		380,261	1,321,593	959,905	1,720,351
Net profit (loss) from discontinued operations		-	-	-	-
Basic and diluted weighted average number of ordinary shares in issue	8.12	86,351,949	86,351,949	86,351,949	86,351,949
Basic and diluted profit (loss) per ordinary share (in PLN)	8.12	4.40	15.30	11.12	19.92

2. Interim consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Net profit		380,187	1,321,527	959,918	1,720,361
Other comprehensive income	8.13	(20,634)	(45,057)	5,567	15,042
Amounts subject to subsequent transfer to statement of profit and loss		(24,807)	(49,534)	4,124	12,461
Measurement of available-for-sale financial instruments		(55,424)	(26,470)	5,370	19,241
Exchange differences from translation		30,624	(23,057)	(1,245)	(6,779)
Other comprehensive income of entities measured using the equity method		(7)	(7)	(1)	(1)
Amounts not subject to subsequent transfer to statement of profit and loss		4,173	4,477	1,443	2,581
Property reclassified from property, plant and equipment to investment property		4,137	4,441	1,555	2,693
Other comprehensive income of companies measured using the equity method		36	36	(112)	(112)
Total net comprehensive income		359,553	1,276,470	965,485	1,735,403
- comprehensive income attributable to equity holders of the parent entity		359,617	1,276,547	965,472	1,735,391
- comprehensive income attributable to non-controlling interest		(64)	(77)	13	12

3. Interim consolidated statement of financial position

Assets	Note	30 June 2015	31 December 2014
Intangible assets	8.14	778,596	868,692
Goodwill	8.15	765,725	785,663
Property, plant and equipment		993,350	1,001,609
Investment property		2,393,702	2,236,062
Entities measured using the equity method	8.16	66,308	66,311
Financial assets		54,601,635	56,759,976
Financial instruments held to maturity	8.17.1, 8.22	20,077,667	19,983,689
Financial instruments available for sale	8.17.2, 8.22	3,102,747	2,985,322
Financial instruments at fair value through profit or loss	8.17.3, 8.22	18,709,678	19,096,484
Loans and receivables	8.17.4, 8.22	12,711,543	14,694,481
Receivables, including insurance receivables	8.20, 8.22	3,300,655	3,068,813
Reinsurers' share in technical provisions	8.21, 8.22	707,664	753,115
Estimated subrogations and salvages		122,187	127,262
Deferred tax assets		26,324	26,957
Current income tax receivables		4,629	368
Deferred acquisition costs		897,031	712,066
Other assets	8.23	296,813	235,250
Cash and cash equivalents		598,989	324,007
Assets held for sale	8.25	526,126	606,610
Total assets		66,079,734	67,572,761

Interim consolidated statement of financial position (cont.)

Equity and liabilities	Note	30 June 2015	31 December 2014
Equity			
Issued share capital and other equity attributable to the equity holders of the parent entity			
Share capital		86,352	86,352
Other capital		10,084,235	9,885,791
Treasury shares		(110)	(110)
Supplementary capital		9,926,759	9,678,921
Revaluation reserve		222,166	248,543
Other reserve capital		66	66
Actuarial gains and losses from remeasurements of defined benefit liabilities		(6,143)	(6,179)
Exchange differences from translation		(58,503)	(35,450)
Unappropriated result		1,681,653	3,194,193
Retained earnings		360,060	226,462
Net profit		1,321,593	2,967,731
Non-controlling interests		883	1,292
Total Equity		11,853,123	13,167,628
Liabilities			
Technical provisions	8.26	40,734,374	40,166,885
Unearned premium and unexpired risk reserve		5,466,551	5,250,103
Provision for life mathematical reserve		16,250,809	16,281,625
Provisions for outstanding claims and benefits		7,768,739	7,770,351
Provisions for the capitalized annuity benefits		6,020,636	5,997,595
Provisions for bonuses and discounts for the insured		3,221	2,291
Other technical provisions		418,937	439,364
Unit-linked technical provisions		4,805,481	4,425,556
Investment contracts	8.27	789,029	1,108,107
- with guaranteed and fixed terms and conditions		317,213	520,840
- unit-linked		471,816	587,267
Provisions for employee benefits		129,732	120,070
Other provisions	8.28	194,645	191,206
Deferred income tax		314,985	398,433
Current income tax liabilities		42,672	53,770
Derivative instruments	8.17.7	469,044	625,844
Liabilities arising from issuance of debt instruments	8.29	2,109,880	2,127,527
Other liabilities	8.30	9,188,774	9,361,277
Liabilities directly associated with assets held for sale	8.25	253,476	252,014
Total liabilities		54,226,611	54,405,133
Total equity and liabilities		66,079,734	67,572,761

4. Interim statement of changes in consolidated equity

Statement of changes in consolidated equity	Share capital	Capitals and reserves attributable to equity holders of the parent entity									Non-controlling interests	Total equity
		Other reserves						Unappropriated result		Total		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses remeasurements of defined benefit liabilities	Ex-change differences from translation	Retained earnings	Net profit			
Opening balance 1 January 2015	86,352	(110)	9,678,921	248,543	66	(6,179)	(35,450)	3,194,193	-	13,166,336	1,292	13,167,628
Measurement of available-for-sale financial instruments	-	-	-	(26,470)	-	-	-	-	-	(26,470)	-	(26,470)
Exchange differences from translation	-	-	-	-	-	-	(23,046)	-	-	(23,046)	(11)	(23,057)
Property reclassified from property, plant and equipment to investment property	-	-	-	4,441	-	-	-	-	-	4,441	-	4,441
Other comprehensive income of companies measured using the equity method	-	-	-	-	-	36	(7)	-	-	29	-	29
Total other net comprehensive income	-	-	-	(22,029)	-	36	(23,053)	-	-	(45,046)	(11)	(45,057)
Net profit/(loss)	-	-	-	-	-	-	-	-	1,321,593	1,321,593	(66)	1,321,527
Total comprehensive income	-	-	-	(22,029)	-	36	(23,053)	-	1,321,593	1,276,547	(77)	1,276,470
Other changes, including:	-	-	247,838	(4,348)	-	-	-	(2,834,133)	-	(2,590,643)	(332)	(2,590,975)
Profit appropriation	-	-	243,202	-	-	-	-	(2,833,771)	-	(2,590,569)	-	(2,590,569)
Prof-Med. and Elvita shares purchase	-	-	(74)	-	-	-	-	-	-	(74)	(332)	(406)
Sale of revalued property	-	-	4,710	(4,348)	-	-	-	(362)	-	-	-	-
Balance as at 30 June 2015	86,352	(110)	9,926,759	222,166	66	(6,143)	(58,503)	360,060	1,321,593	11,852,240	883	11,853,123

Interim statement of changes in consolidated equity (cont.)

Statement of changes in consolidated equity	Share capital	Capitals and reserves attributable to equity holders of the parent entity									Non-controlling interests	Total equity
		Other reserves						Unappropriated result		Total		
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses remeasurements of defined benefit liabilities	Ex-change differences from translation	Retained earnings	Net profit			
Opening balance 1 January 2014	86,352	(110)	8,855,999	242,297	-	902	(37,737)	3,963,587	-	13,111,290	16,341	13,127,631
Measurement of available-for-sale financial instruments	-	-	-	8,475	-	-	-	-	-	8,475	-	8,475
Other comprehensive income of companies measured using the equity method	-	-	-	-	-	(190)	8	-	-	(182)	-	(182)
Exchange differences from translation	-	-	-	-	-	-	2,279	-	-	2,279	8	2,287
Actuarial gains and losses remeasurements of defined benefit liabilities	-	-	-	-	-	(6,891)	-	-	-	(6,891)	-	(6,891)
Property reclassified from property, plant and equipment to investment property	-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Total other net comprehensive income	-	-	-	21,979	-	(7,081)	2,287	-	-	17,185	8	17,193
Net profit	-	-	-	-	-	-	-	-	2,967,731	2,967,731	(104)	2,967,627
Total other net comprehensive income	-	-	-	21,979	-	(7,081)	2,287	-	2,967,731	2,984,916	(96)	2,984,820
Other changes, including:	-	-	822,922	(15,733)	66	-	-	(3,737,125)	-	(2,929,870)	(14,953)	(2,944,823)
Profit appropriation	-	-	800,257	-	66	-	-	(3,736,288)	-	(2,935,965)	-	(2,935,965)
Increase in the capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	138	138
Buyback of shares of Armatura Kraków SA	-	-	6,095	-	-	-	-	-	-	6,095	(15,983)	(9,888)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	892	892
Sale of revalued property	-	-	16,570	(15,733)	-	-	-	(837)	-	-	-	-
Balance as at 31 December 2014	86,352	(110)	9,678,921	248,543	66	(6,179)	(35,450)	226,462	2,967,731	13,166,336	1,292	13,167,628

Interim statement of changes in consolidated equity (cont.)

Statement of changes in consolidated equity	Share capital	Capitals and reserves attributable to equity holders of the parent entity								Non-controlling interests	Total equity	
		Other reserves						Unappropriated result				Total
		Treasury shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial gains and losses remeasurement s of defined benefit liabilities	Ex-change differences from translation	Retained earnings	Net profit			
Opening balance 1 January 2014	86,352	(110)	8,855,999	242,297	-	902	(37,737)	3,963,587	-	13,111,290	16,341	13,127,631
Measurement of available-for-sale financial instruments	-	-	-	19,241	-	-	-	-	-	19,241	-	19,241
Exchange differences from translation	-	-	-	-	-	-	(6,781)	-	-	(6,781)	2	(6,779)
Property reclassified from property, plant and equipment to investment property	-	-	-	2,693	-	-	-	-	-	2,693	-	2,693
Other comprehensive income of companies measured using the equity method	-	-	-	-	-	(112)	(1)	-	-	(113)	-	(113)
Total other net comprehensive income	-	-	-	21,934	-	(112)	(6,782)	-	-	15,040	2	15,042
Net profit	-	-	-	-	-	-	-	-	1,720,351	1,720,351	10	1,720,361
Total other net comprehensive income	-	-	-	21,934	-	(112)	(6,782)	-	1,720,351	1,735,391	12	1,735,403
Other changes, including:	-	-	813,112	(6,782)	26,240	-	-	(3,762,452)	-	(2,929,882)	(15,855)	(2,945,737)
Profit appropriation	-	-	800,121	-	26,240	-	-	(3,762,339)	-	(2,935,978)	-	(2,935,978)
Increase in the capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	15	15
Buyback of shares of Armatura Kraków SA	-	-	6,095	-	-	-	-	-	-	6,095	(15,983)	(9,888)
Acquisition of medical companies	-	-	-	-	-	-	-	-	-	-	105	105
Acquisition of AAS Balta	-	-	-	-	-	-	-	-	-	-	8	8
Sale of revalued property	-	-	6,896	(6,782)	-	-	-	(113)	-	1	-	1
Balance as at 30 June 2014	86,352	(110)	9,669,111	257,449	26,240	790	(44,519)	201,135	1,720,351	11,916,799	498	11,917,297

5. Interim consolidated statement of cash flows

Consolidated cash flow statement	Note	1 January – 30 June 2015	1 January – 30 June 2014 (restated)
Cash flows from operating activities			
Inflows		10,664,465	9,811,445
- inflows from gross premiums		9,133,567	8,333,851
- inflows from investment contracts		74,297	277,959
- inflows from reinsurance commissions and share in reinsurers' profits		9,513	6,000
- inflows from reinsurers' share in claims		34,592	23,692
- inflows from claims representative services		98,883	97,937
- inflows from sale of units by investment fund		602,618	603,166
- other inflows from operating activities	8.31	710,995	468,840
Outflows		(9,671,854)	(9,073,824)
- insurance premiums		(145,261)	(136,348)
- commissions paid and profit sharing due to inward reinsurance		(14,285)	(3,454)
- gross claims paid		(5,071,050)	(4,203,716)
- benefits paid due to investment contracts		(404,070)	(1,061,516)
- acquisition outflows		(1,039,180)	(890,297)
- administrative outflows		(1,175,596)	(1,020,614)
- interest payments		(106)	(174)
- income tax payments		(417,461)	(264,642)
- outflows from claims representative services		(261,654)	(226,822)
- outflows from purchase of units by investment fund		(252,789)	(336,700)
- other operating outflows	8.31	(890,402)	(929,541)
Net cash flows generated by operating activities		992,611	737,621
Cash flows from investing activities			
Inflows		342,498,692	307,903,216
- disposal of investment property		28,313	29,903
- inflows from investment property		121,116	72,249
- disposal of intangible assets and property, plant and equipment		2,592	1,264
- disposal of shares		1,805,431	5,509,599
- redemption of debt instruments		23,458,296	33,934,651
- sales of debt securities under buy-sell-back transactions		177,487,405	180,681,485
- withdrawal of term deposits at credit institutions		102,175,847	81,319,628
- cash from other investments		36,826,270	5,697,456
- interest received		550,033	630,605
- dividends received		20,042	7,513
- cash acquired from business combinations		537	8,278
- other inflows from investments		22,810	10,585

Interim consolidated statement of cash flows (cont.)

Consolidated statement of cash flows	Note	1 January – 30 June 2015	1 January – 30 June 2014 (restated)
Outflows		(340,412,528)	(307,678,926)
- acquisition of investment property		(136,718)	(71,485)
- outflows for maintenance of investment property		(95,408)	(78,489)
- acquisition of intangible assets and property, plant and equipment		(149,694)	(103,867)
- acquisition of shares		(2,367,633)	(6,641,846)
- acquisition of shares in subsidiaries		(31,151)	(251,309)
- decrease in cash balance due to changes in the scope of consolidation		(215,307)	(16,108)
- acquisition of debt securities		(22,467,298)	(34,206,334)
- opening buy-sell-back transactions		(177,226,856)	(180,900,162)
- acquisition of term deposits at credit institutions		(100,554,087)	(79,533,216)
- acquisition of other investments		(37,163,147)	(5,866,716)
- other investments outflows		(5,229)	(9,394)
Net cash flow from investment activities		2,086,164	224,290
Cash flows from financing activities			
Inflows		167,272,145	173,411,312
- loans and borrowings		31,966	10,814
- closing sell-buy-back transactions		167,240,179	173,400,498
Outflows		(170,079,476)	(174,499,537)
- dividends paid to holders of the parent entity's equity		(1,468,017)	(34)
- repayment of loans and borrowings		(126,364)	(6,311)
- opening sell-buy-back transactions		(168,482,423)	(174,487,398)
- interest on loans and borrowings		(2,447)	(5,764)
- other financial outflows		(225)	(30)
Net cash used in financing activities		(2,807,331)	(1,088,225)
Total net cash flows		271,444	(126,314)
Cash and cash equivalents at the beginning of the financial year		324,007	569,157
Change in cash due to foreign exchange differences		3,538	3,807
Cash and cash equivalents at the end of the financial year, including:		598,989	446,650
- of restricted use		58,992	71,047

Additional information and explanatory notes to the condensed consolidated financial statements

1. About PZU and PZU Group

1.1. PZU

The Group's parent entity is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24, entered to the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, under KRS number 0000009831.

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

1.2. PZU Group entities

No.	Name of the company	Registered office	Date of acquisition of control / significant influence	% of share capital / equity held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business activity
				30 June 2015	31 December 2014	30 June 2015	31 December 2014	
Consolidated subsidiaries								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie")	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA ("Link4") ¹⁾	Warsaw	15.09.2014	100.00%	100.00%	100.00%	100.00%	Non-life insurance. http://www.link4.pl/
4	Lietuvos Draudimas AB ²⁾	Vilnius (Lithuania)	31.10.2014	99.98%	99.98%	99.98%	99.98%	Non-life insurance. http://www.ld.lt/
5	Apdrošināšanas Akciju Sabiedrība Balta ("AAS Balta")	Riga (Latvia)	30.06.2014	99.99%	99.99%	99.99%	99.99%	Non-life insurance. http://www.balta.lv/
6	PrJSC IC PZU Ukraine ("PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
7	PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
8	UAB DK PZU Lietuva ("PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.88%	99.88%	99.88%	99.88%	Non-life insurance. https://www.pzu.lt/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance. https://www.pzu.lt/
10	Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU")	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
11	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity related to insurance and pension funds.

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control / significant influence	% of share capital / equity held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business activity
				30 June 2015	31 December 2014	30 June 2015	31 December 2014	
Consolidated subsidiaries – cont.								
12	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishment, representation and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
13	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
14	PZU Finance AB (publ.)	Stockholm (Sweden)	02.06.2014	100.00%	100.00%	100.00%	100.00%	Financial services.
15	PZU Finanse sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	100.00%	100.00%	Accounting services.
16	Tower Inwestycje sp. z o.o.	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other service activities with the exception of insurance and pension funds.
17	Ogrodowa-Inwestycje sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Acquiring, operating, renting and selling of real estate. http://www.ogrodowainwestycje.pl/
18	Armatura Kraków SA	Kraków	07.10.1999	100.00%	100.00%	100.00%	100.00%	Distribution of products of Armatura Group, administration and management of Armatura Group. http://www.grupa-armatura.pl/
19	Armatoora SA	Nisko	10.12.2008	100.00%	100.00%	100.00%	100.00%	Production and sale of radiators and sanitary fixtures and fittings..
20	Armaton SA	Kraków	10.02.2009	100.00%	100.00%	100.00%	100.00%	Use of free funds, development investments.
21	Arm Property sp. z o.o.	Kraków	26.11.2014	100.00%	100.00%	100.00%	100.00%	Real property purchases and sales.
22	Aquaform SA ³⁾	Środa Wlkp.	15.01.2015	100.00%	n/a	100.00%	n/a	Production and distribution of bathroom fixtures.
23	Aquaform Badprodukte GmbH ³⁾	Anhausen (Germany)	15.01.2015	100.00%	n/a	100.00%	n/a	Wholesale.
24	Aquaform Ukraine TOW ³⁾	Zhytomyr (Ukraine)	15.01.2015	100.00%	n/a	100.00%	n/a	Wholesale.
25	Aquaform Romania SRL ³⁾	Prejmer (Romania)	15.01.2015	100.00%	n/a	100.00%	n/a	Wholesale.
26	Morehome.pl sp. z o.o. ³⁾	Środa Wlkp.	15.01.2015	100.00%	n/a	100.00%	n/a	Retail sales through electronic channels.

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
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No.	Name of the company	Registered office	Date of acquisition of control / significant influence	% of share capital / equity held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business activity
				30 June 2015	31 December 2014	30 June 2015	31 December 2014	
Consolidated subsidiaries – cont.								
27	PZU Zdrowie SA	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	Rendering of medical services. http://www.pzu.pl/grupa-pzu/pzu-zdrowie-sa
28	Centrum Medyczne ("CM Medica")	Płock	09.05.2014	100.00%	100.00%	100.00%	100.00%	Rendering of medical services. http://cmmedica.pl/
29	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o. ("Prof-Med")	Włocławek	12.05.2014	100.00%	96.45%	100.00%	96.45%	Rendering of medical services. http://cmprofmed.pl/
30	Sanatorium Uzdrowskowe "Krystynka" sp. z o.o. ("SU Krystynka")	Ciechocinek	09.05.2014	98.58%	98.58%	98.58%	98.58%	Rendering of hospital, rehabilitation and spa therapy services http://www.sanatoriumkrystynka.pl/
31	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. ("Elvita")	Jaworzno	01.12.2014	99.93%	98.82%	99.93%	98.82%	Rendering of medical services. http://www.elvita.pl/
32	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. ("Proelmed")	Łaziska Górne	01.12.2014	57.00%	57.00%	57.00%	57.00%	Rendering of medical services. http://www.proelmed.pl/
33	Rezo-Medica sp. z o.o. ⁴⁾	Płock	23.04.2015	100.00%	n/a	100.00%	n/a	Rendering of medical services. http://rezo-medica.pl/
34	Ipsilon sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Rendering of business assistance services and medical services.
35	PZU Asset Management SA ("PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of securities portfolios for the account of third parties.
36	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA w likwidacji ("MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Company does not conduct business activity.
37	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	Company does not conduct business activity.
38	Omicron Bis SA	Warsaw	28.08.2014	100.00%	100.00%	100.00%	100.00%	Company does not conduct business activity.
39	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance service activitie.

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control / significant influence	% of share capital / equity held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business activity
				30 June 2015	31 December 2014	30 June 2015	31 December 2014	
Consolidated subsidiaries - cont.								
40	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	100.00%	100.00%	100.00%	Company does not conduct business activity.
41	PZU SFIO Universum	Warsaw	15.12.2009	n/a	n/a	n/a	n/a	Investment of funds collected from the participants of the fund.
42	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	as above.
43	PZU FIZ Sektora Nieruchomości ⁵⁾	Warsaw	01.07.2008	n/a	n/a	n/a	n/a	as above.
44	PZU FIZ Sektora Nieruchomości 2 ⁵⁾	Warsaw	21.11.2011	n/a	n/a	n/a	n/a	as above.
45	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	n/a	n/a	as above.
46	PZU FIZ Aktywów Niepublicznych BIS 2 ("PZU FIZ AN BIS 2")	Warsaw	19.11.2012	n/a	n/a	n/a	n/a	as above.
47	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above.
48	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above.
49	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	as above.
50	PZU FIZ Sektora Nieruchomości 3 w likwidacji ⁵⁾	Warsaw	24.02.2012	n/a	n/a	n/a	n/a	as above.
51	PZU FIZ Aktywów Niepublicznych RE Income w likwidacji ⁵⁾	Warsaw	08.11.2011	n/a	n/a	n/a	n/a	as above.
52	PZU FIO Gotówkowy	Warsaw	01.07.2005	n/a	n/a	n/a	n/a	as above.
Joint ventures								
53	Armatura Tower sp. z o.o.	Kraków	08.11.2013	50.00%	50.00%	50.00%	50.00%	Execution of construction projects.

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
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(in PLN thousand)

No.	Name of the company	Registered office	Date of acquisition of control / significant influence	% of share capital / equity held directly or indirectly by PZU		% of voting rights held directly or indirectly by PZU		Business activity
				30 June 2015	31 December 2014	30 June 2015	31 December 2014	
Associates								
54	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services.
55	EMC Instytut Medyczny SA	Wrocław	18.06.2013	28.58%	28.58%	25.41%	25.41%	Protection of human health, research and development in the field of medical sciences and pharmacy.

¹⁾ Information concerning the acquisition of Link4 is presented in point 1.4.1.1.

²⁾ Information concerning the acquisition of Lietuvos Draudimas is presented in point 1.4.1.2.

³⁾ Information concerning the acquisition of Aquaform SA is presented in point 1.4.1.3.

⁴⁾ Information concerning the acquisition of Rezo-Medica sp. z o.o. is presented in point 1.4.1.4.

⁵⁾ As at 30 June 2015, the funds of PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3 w likwidacji, PZU FIZ Aktywów Niepublicznych RE Income w likwidacji carried out investing activities via subsidiaries, i.e. special purpose vehicles operating in the form of commercial companies investing in individual properties. Each investment fund invested in 40, 12, 0, 6 properties respectively (31 December 2014: 39, 13, 7, 6).

As at 30 June 2015, apart from the entities listed in the table, PZU Group held 100% of shares in Syta Development sp. z o.o. w likwidacji (company in liquidation) which is overseen by a liquidator independent from PZU Group; for that reason, the company is not included in the consolidation. The value of these shares in PZU Group consolidated financial statements amounted to zero.

1.3. Non-controlling interests

There are no subsidiaries within PZU Group with non-controlling interests that would be material relevant to PZU Group. The table below presents subsidiaries with non-controlling interests:

Name of entity	30 June 2015	31 December 2014
Proelmed	43.00%	43.00%
SU Krystynka	1.42%	1.42%
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
PZU Lietuva	0.12%	0.12%
Elvita	0.07%	1.18%
Lietuvos Draudimas AB	0.02%	0.02%
AAS Balta	0.01%	0.01%
Prof-Med	0.00%	3.55%

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

1.4.1. Business combination transactions

The business combination transactions are settled with the acquisition method according to IFRS 3 – “Business combinations”. It requires identification of the acquiring entity, establishment of the date of acquisition, recognition and measurement of identifiable purchased assets, fair value measurement of acquired liabilities at the acquisition date, and all non-controlling interests in the acquired entity, and recognition and measurement of the goodwill.

The detailed accounting conditions concerning the settlement of the acquisition are presented in the consolidated financial statements of The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for 2014.

1.4.1.1. Acquisition shares of Link4

Based on the Link4 share purchase agreement of 17 April 2014 PZU acquired from Royal & Sun Alliance Insurance plc, a limited liability company incorporated in England and Wales with its registered office in West Sussex, Great Britain (“RSA”) 111,354,305 registered shares of Link4, which constitute 100% of Link4 share capital conferring the right to 100% of votes at the Shareholders' Meeting of Link4 (“Link4 shares”) with nominal value of PLN 1.00 each.

On 15 September 2014, the Link4 transaction was closed to gain control; from this date onwards, Link4 is consolidated. Payment for Link4 shares made on the day the transaction was closed amounted to EUR 93,886 thousand (at the NBP exchange rate established on the day preceding the transaction date – PLN 393,917 thousand).

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

Final Link4 purchase price allocation

Purchase price allocation for Link4 was settled based on company data produced on 31 August 2014. There were no significant differences in accounting data between 31 August 2014 and 15 September 2014 (date of obtaining control).

The goodwill calculations covered the remeasurement of the carrying amounts of assets and liabilities of Link4 to fair value and identification of new intangible assets previously not recognized by the company.

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

¹⁾ The adjustment of PLN 15 436 thousand is composed of the RSA return of EUR 2,070 thousand (PLN 8,539 thousand) and purchase price less acquired settlements between Link4 and RSA in amount of PLN 6,897 thousand.

The goodwill will not reduce the taxable income.

1.4.1.2. Acquisition of shares of Lietuvos Draudimas AB

Based on the Lietuvos Draudimas AB share purchase agreement of 17 April 2014, PZU acquired from RSA 805,432 ordinary registered shares of Lietuvos Draudimas AB with a nominal value of LTL 50.00 per share, which compose 99.977% of Lietuvos Draudimas AB share capital ("Lietuvos Draudimas AB shares"), conferring the right to 99.977% of votes at the Shareholders' Meeting of Lietuvos Draudimas AB.

The transaction covering the purchase of Lietuvos Draudimas AB was closed and control obtained on 31 October 2014 and as of this day Lietuvos Draudimas is consolidated. Payment for Lietuvos Draudimas AB shares made on the day the transaction was closed amounted to EUR 191,012 thousand (at the NBP exchange rate established on the day preceding the transaction date: PLN 807,598 thousand).

On 3 June 2015, the transaction was ultimately concluded. Due to the difference between the ultimate net value of the assets and their reference value, RSA paid the resulting difference in amount of EUR 279 thousand to PZU. The final payment was EUR 190,733 thousand (PLN 806,446 thousand).

Final Lietuvos Draudimas AB purchase price allocation

Purchase price allocation for Lietuvos Draudimas AB shares was settled based on company data produced on 31 October 2014.

The goodwill calculations covered the remeasurement of the carrying amounts of assets and liabilities of Lietuvos Draudimas AB to fair value and identification of new intangible assets previously not recognized by the company.

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

1.4.1.3. Acquisition of shares of Aquaform SA

Based on the Aquaform SA share purchase agreement of 15 January 2015, PZU's subsidiaries Armatura Kraków SA and Armatoora SA (Purchasers) acquired the total of 8,421,053 shares in Aquaform SA with nominal value of PLN 0.38 per share from Saniku SA and Shower Star B.V (Sellers).

Based on the Aquaform SA share purchase agreement of 31 March 2015 and 14 May 2015, PZU's subsidiary Armatura Kraków SA acquired the total of 1,578,947 shares in Aquaform SA from non-controlling shareholders.

PZU also acquired indirect ownership of Aquaform Badprodukte GmbH, Aquaform Romania SRL, Aquaform Ukraine TOW, and Morehome.pl sp. z o.o., subsidiaries of Aquaform SA.

The price of acquisition of the majority shares is composed of the fixed price of EUR 5,300 thousand and the additional price composing 6.5% of the total purchase value above EUR 24,000 thousand obtained by Aquaform SA in the markets of Germany, Austria, Switzerland, France, Netherlands, and Luxembourg over the years 2015 – 2017.

The purchase price for the acquisition of shares from minority shareholders was PLN 3,620 thousand.

The total share of Armatura Kraków SA and Armatoora SA in the share capital of Aquaform SA represents 100% of the share capital and 100% of the votes at the General Shareholders' Meeting.

The transaction covering the purchase of Aquaform SA was closed and control obtained on 15 January 2015 and as of this day Aquaform SA and its subsidiaries are consolidated.

Purchase price allocation for Aquaform SA was based on company data produced on 31 December 2014. There were no significant differences in accounting data between 31 December 2014 and 15 January 2015 (date of obtaining control).

The allocation has a provisional character. The final allocation will be presented after the completion of the valuation of the acquired assets which should take place by 31 December 2015.

Fair value of the acquired assets at the time of the acquisition of control	Provisional settlement (in PLN thousand)
Intangible assets	334
Property, plant and equipment	2,123
Deferred tax asset	2,608
Receivables	13,275
Other assets	19,802
New intangible assets identified during the acquisition, including:	7,443
- trademark	6,120
- favorable agreement	1,323
Total assets	45,585
Liabilities	12,302
Share in the fair value of the acquired net assets	33,283
Consideration transferred – in cash	25,925
Gain from a bargain purchase	7,358

1.4.1.4. Acquisition of shares of Rezo-Medica sp. z o.o.

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

1.4.2. Business combinations of entities under common control

On 26 March 2015 and 27 March 2015, PZU FIZ AN BIS 2 and PZU Zdrowie SA entered share purchase agreements of CM Medica and Prof-Med shares.

This transaction did not exert any effect on the condensed interim consolidated financial statements.

1.4.3. Changes in consolidation of investment funds

Due to the loss of control over the consolidated fund PZU Fundusz Inwestycyjny Zamknięty Forte as at 30 June 2015, its consolidation was discontinued. In effect, the presented balance of cash held by PZU Group decreased by PLN 215,307 thousand ("decrease in cash due to elimination of investment funds from consolidation") in the consolidated statement of cash flows. After the discontinuation of the consolidation of the investment fund, the consolidated financial statements present the value of the PZU Group's fund units instead of the investment fund assets and liabilities.

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

2.1. Composition of the Parent Entity's Management Board

From 1 January 2015, the composition of the PZU Management Board was as follows:

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

The PZU Supervisory Board appointed Andrzej Klesyk to the new PZU Management Board term with the resolution dated 16 March 2015 and entrusted him with the position of PZU CEO.

On 24 June 2015, under the motion of the PZU CEO, the PZU Supervisory Board appointed the following individuals to the new PZU Management Board and entrusted them with the obligations of PZU Members of the Board.

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

The appointment covers the mutual term started on 1 July 2015. The term covers three successive financial years. 2016 is the first full financial year of the term.

2.2. Composition of the Parent Entity's Supervisory Board

From 1 January 2015 to 30 June 2015, the composition of the Management Board of PZU was as follows:

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

On 30 June 2015, the General Shareholders' Meeting of PZU (PZU ZWZ) appointed the following individuals to the new Supervisory Board term:

- Zbigniew Ćwiąkański;
- Zbigniew Derdziuk;
- Dariusz Filar;
- Dariusz Kacprzyk;
- Paweł Kaczmarek;
- Jakub Karnowski;
- Aleksandra Magaczewska;
- Alojzy Nowak;

- Maciej Piotrowski.

The appointment was made on 1 July 2015 for the period of the mutual term and covers three consecutive full financial years. 2016 is the first full financial year of the term.

2.3. Directors of the Group

Apart from the members of the Management Board, the key management personnel of PZU Group includes also Directors of PZU Group, who are also members of the Management Board of PZU Życie.

From 1 January 2015, the following persons served as Directors of PZU Group:

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

Due to the appointment of Rafał Grodzicki to the PZU Management Board, he is dismissed from the position of Group Director with the ordinance of the PZU Management Board dated 21 July 2015 as of 30 June 2015.

The following persons served as Directors of PZU Group between 1 July 2015 and the date of submission of these interim financial statements:

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

3. Key accounting policies

The detailed accounting policies are presented in the annual consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the year 2014, signed by the PZU Management Board on 16 March 2015 ("Consolidated financial statements of PZU Group for the year 2014").

The consolidated financial statements of PZU Group for 2014 are available at the PZU website: www.pzu.pl under "Investor Relations".

3.1. Changes in accounting policies and estimates, errors

3.1.1. Changes to applied IFRS

3.1.1.1. Standards and interpretations as well as amended standards effective from 1 January 2015

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Commentary
IFRIC 21 – Levies	17 June 2014 or later	634/2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to 2011 -2013	1 July 2014	1361/2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exception for joint ventures; (iii) scope of paragraph 52 of IFRS 13 (net exposure exception) and clarifying the interrelationship of IFRS 3 and IAS 40 (additional services). The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2010-2012	1 July 2014	28/2015	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of 'vesting condition'; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and liabilities; proportionate restatement of accumulated depreciation application in revaluation method and clarification on management personnel. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Commentary
Amendments to IAS 19 – Employee Benefits – Defined Benefit Programs: Employee Contributions	1 July 2014	29/2015	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

3.1.1.2. Standards, Interpretations and amended Standards issued but not yet effective

Standards, Interpretations and amended Standards issued but not yet effective:

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Commentary
IFRS 9 – Financial Instruments	24 July 2014	1 January 2018	The standard replaces IAS 39 and defines requirements for recognition and measurement, impairment, derecognition, and hedge accounting. The standard introduces a new approach to financial asset classification, which is conditioned by the nature of the financial flows and the business model of the given assets. The standard also makes the impairment model uniform towards all financial instruments. The new model of the expected impairment loss requires quicker recognition of expected credit loss. The standard introduces a reformed hedge accounting model with advanced requirements concerning risk management disclosure. Due to the distant enforcement date, the impact of IFRS 9 on PZU Group comprehensive income and share capital is not yet assessed.

Standard/ Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Commentary
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016	This Standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognize regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS. The change does not affect PZU Group.
IFRS 15 – Revenue from contracts with customers	28 May 2014	1 January 2018 ¹⁾	IFRS 15 specifies how and when the income is recognized and requires further details. The standard replaces IAS 18 "Income", MSR 11 "Construction service agreements", and numerous interpretations associated with income recognition. The standard is applicable to almost all client agreements (most exceptions concerning leasing agreements, financial instruments, and insurance agreements). The main rule of the new standard is to depict income in a way reflecting goods or service transfer to client and in amount reflecting the remuneration (i.e. payment), for which the company expects to obtain the rights in exchange for the goods or services. The standard also provides transaction recognition guidelines, which were not as detailed by the previous standards (e.g. service income or agreement modification), as well as advanced details concerning multi-element agreement recognition. Due to the distant enforcement date and no application to the insured entities of PZU Group, the potential impact of applying the new standard to comprehensive income and share capital is not yet assessed.
Amendments to IFRS 2012-2014	25 September 2014	1 January 2016	Changes to IFRS 5 – added guidelines for reclassification of assets from held for sale to held for distribution to owners and inversely and instances of discontinued classification of assets held for distribution to owners. Changes to IFRS 7 – added guidelines concerning disclosures associated with asset service agreements and details of applying the changes concerning compensation in condensed interim financial statements to IFRS 7. Change to IAS 19 – clarification that high-quality corporate obligations used to assess the discount rate used in benefit calculation following the employment period should be denominated in the same currency as that used to pay the benefits (thus the activeness of the market of said obligations should be assessed at the currency level). Changes to IAS 34 – definition expansion. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

Standard/ Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Commentary
Changes to IFRS 10 and IAS 28 – Sale or transfer of assets between the investor and associates or joint venture	11 September 2014	1 January 2016	The main consequence of the change is the recognition of all gain or loss when the transaction concerns organized business (regardless if it is located in a subsidiary or not), while partial gains or losses are recognized when the transaction concerns individual assets not composing organized business, even if they are located in a subsidiary. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Changes to IFRS 11 – Settlement of purchase price allocation in joint business	6 May 2014	1 January 2016	The change specifies that the buyers of shares in joint business should obey all acquisition accounting regulations resulting from IRSF 3 and other IRSF not in contrast to IRSF 11 and disclose the information required in said standards. The aforesaid change should not exert any significant effect on the consolidated financial statements of PZU Group.
Changes to IAS 16 and IAS 38 – Details of permitted amortization methods	12 May 2014	1 January 2016	The change specifies that the amortization methods based on income guaranteed by asset generation are incorrect. The aforesaid change should not exert any significant effect on the consolidated financial statements of PZU Group.
Change to IAS 16 and IAS 41 – Bearer plants	30 June 2014	1 January 2016	The change introduces the definition of production assets and relocates them from the application scope of IAS 41 to IAS 16 resulting in a change in measurement. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Change to IAS 27 – Equity method in separate financial statements	12 August 2014	1 January 2016	The change permits the entities to apply the equity method to measure investments in subsidiaries, associates, and joint ventures in separate financial statements. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Changes to IAS 1 – Disclosure initiative	18 December 2014	1 January 2016	Added requirements concerning arranged financial statements, added requirement to negotiate indirect amounts in the statement of profit and losses and comprehensive statement of profit and losses and in the financial statements, additionally added guidelines concerning the significance, presentation details, and standards of accounting. The change may entail slight modifications to the main tables of the consolidated financial statements of PZU Group.

Standard/ Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Commentary
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Application of consolidation exception	18 December 2014	1 January 2016	IFRS 10 – Added additional guidelines forcing mandatory consolidation of non-investment subsidiaries providing investment-related services upon investment entities; added guidelines concerning no obligation to prepare consolidated statements by junior parent entities, which are subsidiaries of investment entities MSR 28 – added guidelines concerning application of equity method measurement by investors, who are not investment entities in relation to the investment associate or joint-venture. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

¹⁾ On 28 April 2015, the International Accounting Standards Board voted to move the effective date by one year, to 1 January 2018.

In conclusion, PZU Group does not project that the introduction of the aforementioned standards and interpretations could exert any significant effect on its accounting policies with exception of IFRS 9 and IFRS 15, whose effect on the PZU Group's accounting policies has not been yet assessed.

3.2. Clarification of differences between the previously published statements and the condensed interim consolidated financial statements

In order to give a more relevant reflection of economic substance, changes in the presentation of the following items were implemented in the 2014 consolidated financial statements:

- incomes from additional benefits arising from the possession of a considerable amount of assets in funds by the insurance company that are managed by investment fund companies (the so-called "kickback"); they were presented under "Net investment income" instead under "Revenue from commissions and fees". Consequently, in the cash flow statement, these benefits were presented under "Other inflows from investment" instead under "Other operations inflows" and "Realization of other investments"
- cash flow from gross premium returns; they were recognized under "Other operating outflows" instead reducing "Inflows from gross written premiums".

Moreover, in order to give a more relevant reflection of economic substance, cash flows on transitional accounts covering unsettled payments of fund members in scope of EPP, IKE, and IP programs were compensated in condensed consolidated financial statements. Instead of gross presentation under "Other operations inflows" and "Other operating outflows", such cash flows will be compensated and presented as either other inflows or other operating outflows.

The tables below present the differences between the historical data in the condensed interim consolidated financial statements for the period of 6 months ended on 30 June 2014 and the present interim condensed financial statement.

Consolidated statement of profit and losses	1 April – 30 June 2014 (historical)	1 January – 30 June 2014 (historical)	1 April – 30 June 2014 (Adjustment)	1 January – 30 June 2014 (Adjustment)	1 April – 30 June 2014 (restated)	1 January – 30 June 2014 (restated)
Revenue from commissions and fees	61,608	130,661	(3,398)	(7,528)	58,210	123,133
Net investment income	429,623	793,408	5,201	12,668	434,824	806,076
Other operating income	144,820	250,007	(1,803)	(5,140)	143,017	244,867

Consolidated statement of cash flows	1 January – 30 June 2014 (historical)	Adjustment	1 January – 30 June 2014 (restated)
Cash flows from operating activities			
Inflows	9,777,990	33,455	9,811,445
- gross inflows from gross premiums written	8,175,277	158,574	8,333,851
- other inflows from operating activities	593,959	(125,119)	468,840
Outflows	(9,032,068)	(41,756)	(9,073,824)
- other operating outflows	(887,785)	(41,756)	(929,541)
Net cash flows generated by operating activities	745,922	(8,301)	737,621
Cash flows from investing activities			
Inflows	307,894,915	8,301	307,903,216
- cash from other investments	5,699,740	(2,284)	5,697,456
- other inflows from investments	-	10,585	10,585
Net cash flow from investment activities	215,989	8,301	224,290

4. Key estimates and judgments

The key estimates and judgments are presented in PZU Group's 2014 consolidated financial statements.

5. Adjustment of errors

During the period of 6 months from 1 January to 30 June 2015, there were no adjustments of prior year errors.

6. Significant events influencing the structure of the financial statements

6.1. Distribution of profit for 2014

On 30 June 2015, the General Shareholders' Meeting of PZU adopted a resolution on appropriation of the net profit for the year 2014. This matter is covered in point 15.

6.2. Key dividends paid among PZU Group entities

These operations have no effect on the financial result of PZU Group but impact the presentation of the results of individual segments.

6.3. Dividends from PZU Życie to PZU

On 29 June 2015, the General Shareholders' Meeting of PZU Życie adopted a resolution on appropriation of the PZU Życie profit for the 2014 financial year in the amount of PLN 1,931,333 thousand as follows:

- PLN 1,795,174 thousand for payment of dividend to the sole shareholder, i.e. PZU;
- PLN 131,159 thousand to the supplementary capital;
- PLN 5,000 thousand to the Social Benefits Fund.

Given the payment made on 29 January 2015 on the account of advance payments towards the dividend expected at the end of the 2014 reporting period in the amount of PLN 730,000 thousand, the remaining part of the dividend amounted to PLN 1,065,174 thousand. The cum dividend date for this part was determined at 14 August 2015 and the dividend payment date at 19 October 2015.

6.4. Dividends from PTE PZU to PZU Życie

On 30 March 2015, the General Shareholders' Meeting of PTE PZU decided to pay out the dividend in amount of PLN 229,426 thousand. The dividend was paid on 6 May 2015.

7. Significant post-balance sheet events

7.1.1.1. Acquisition of shares of Alior Bank SA

After 30 June 2015, PZU has been receiving information on the process of obtaining subsequent consents necessary to purchase Alior Bank SA shares.

Detailed information on date of obtaining subsequent consents has been specified in 17.2.

7.1.1.2. Acquisition of shares of EMC Instytut Medyczny SA

On 17 April 2015, PZU FIZ AN BIS 2 entered into an agreement providing for the acquisition of 325,124 newly issued shares (series I) in EMC Instytut Medyczny SA ("EMC") with the par value of PLN 4.00 per share and the issue price of PLN 15.80 per share. The total purchase price for the acquisition of the new issue was PLN 5,137 thousand.

The EMC capital increased on 9 July 2015, which resulted from the issue of 1,265,822 shares with the par value of PLN 4.00 per share and the issue price of PLN 15.80 per share. According to the promised contract, PZU FIZ AN BIS 2 acquired 325,124 shares (25.685% newly issued shares). As a result of the aforesaid capital raise, PZU FIZ AN BIS 2

holds the total of 3,760,762 shares representing 28.31% of the share capital and 25.44% of votes at the EMC General Meeting.

7.1.1.3. Acquisition of shares of Centrum Medyczne Gamma sp. z o.o.

On 29 July 2015, the General Shareholders' Meeting of Centrum Medyczne Gamma sp. z o.o. ("Gamma") with its registered seat in Warsaw approved the raise of the Gamma share capital through the issue of 29,278 shares with the par value of PLN 50 per share. All shares will be acquired by PZU FIZ AN BIS 2. The motion to register the shares was filed to the National Court Register on 4 August 2015. Resulting from the issue, PZU's share in the share capital and votes at the Gamma shareholders' meeting amounts to 54.95%. As at the date of release of this interim statement, no capital increase was registered.

8. Additional notes to the interim consolidated financial statements

8.1. Gross written premiums

Gross written premiums	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Gross written premiums – non-life insurance	2,409,668	5,073,799	2,113,578	4,491,233
In direct insurance	2,388,643	5,041,578	2,104,702	4,464,526
In indirect insurance	21,025	32,221	8,876	26,707
Gross written premiums – life insurance	2,035,955	4,052,651	1,970,336	3,946,660
Individual premiums	844,567	1,682,452	812,441	1,634,929
Group insurance premiums	1,191,388	2,370,199	1,157,895	2,311,731
Total gross written premiums	4,445,623	9,126,450	4,083,914	8,437,893

Gross written premiums in direct non-life insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Accident and sickness insurance (class 1 and 2)	124,425	283,563	93,355	196,810
Motor TPL insurance (class 10)	830,888	1,614,403	710,332	1,409,163
Other motor insurance (class 3)	657,113	1,296,289	540,995	1,069,830
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	18,945	37,449	23,959	43,097
Insurance against fire and other damage to property (classes 8, 9)	478,137	1,205,336	423,636	1,073,698
TPL insurance (classes 11, 12, 13)	159,283	382,580	170,645	441,966
Credit insurance and surety ship (classes 14, 15)	20,807	39,215	41,407	58,209
Assistance (class 18)	83,985	155,286	59,974	114,308
Legal protection (class 17)	411	758	370	674
Other (class 16)	14,649	26,699	40,029	56,771
Total	2,388,643	5,041,578	2,104,702	4,464,526

8.2. Revenue from commissions and fees

Revenue from commissions and fees	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Pension insurance	30,395	56,750	33,477	76,851
Handling fees	1,267	2,615	6,146	15,469
Asset management for open pension fund	26,132	51,139	27,331	61,382
Other	2,996	2,996	-	-
Investment contracts	2,503	4,918	3,372	7,683
Fees from unit-linked investment contracts	2,503	4,918	3,372	7,683
Other	21,854	41,528	21,361	38,599
Fees received from funds and investment fund management companies	21,854	41,528	21,361	38,599
Total revenue from commissions and fees	54,752	103,196	58,210	123,133

8.3. Net investment income

Net investment income	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Interest income, including:	369,016	697,175	372,162	725,500
- financial assets available for sale	10,313	31,507	10,376	25,300
- financial assets held to maturity	249,306	482,141	241,412	476,771
- loans	108,517	181,664	119,149	221,511
- receivables, including insurance receivables	38	413	-	-
- cash and cash equivalents	842	1,450	1,225	1,918
Dividend income, including:	38,016	38,415	37,370	39,454
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	22,769	23,073	25,687	27,295
- financial assets held for trading	14,447	14,484	10,930	11,406
- financial assets available for sale	800	858	753	753
Income from investment property	51,232	100,103	34,709	66,316
Foreign exchange differences, including:	28,133	46,186	3,192	1,902
- financial assets held to maturity	1,792	(1,154)	(196)	214
- financial assets available for sale	13,617	2,831	(2,038)	(2,524)
- loans	(768)	5,339	5,711	5,497
- receivables, including insurance receivables	11,385	1,877	(364)	(1,364)
- cash and cash equivalents	2,107	37,293	79	79
Other, including:	(35,647)	(76,284)	(12,609)	(27,096)
- costs of investing activities	(8,206)	(15,893)	(3,842)	(10,276)
- investment property maintenance costs	(34,336)	(73,862)	(13,968)	(30,454)
- other	6,895	13,471	5,201	13,634
Total net investment income	450,750	805,595	434,824	806,076

8.4. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Net result on realization of investments	75,551	208,448	138,276	47,808
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	24,711	77,343	121,650	94,937
- equity instruments	29,405	1,179	(3,235)	17,499
- debt securities	(4,694)	76,164	124,885	77,438
Financial assets held for trading, including:	84,671	156,963	26,139	(33,021)
- equity instruments	6,666	26,498	(2,301)	(5,818)
- debt securities	(12,646)	(7,489)	12,581	(207)
- derivatives	90,651	137,954	15,859	(26,996)
Financial assets available for sale, including:	(17,353)	8	3,828	10,397
- equity instruments	8	33	-	-
- debt securities	(17,361)	(25)	3,828	10,397
Financial assets held to maturity, including:	(945)	(1,003)	(197)	1,248
- debt securities held to maturity	(945)	(1,003)	(197)	1,248
Loans	161	185	-	-
Receivables, including insurance receivables	(13,987)	(25,795)	(12,656)	(25,772)
Cash and cash equivalents	23	(51)	-	-
Investment property	(1,730)	798	(488)	19
Impairment losses	(10,393)	(25,506)	(1,432)	(22,629)
Financial assets available for sale, including:	-	-	-	(3,400)
- equity instruments	-	-	-	(3,400)
Loans	(6,104)	(7,039)	-	-
Receivables, including insurance receivables	(4,265)	(17,079)	(1,432)	(19,229)
Cash and cash equivalents	(24)	(1,388)	-	-
Total net result on realization and impairment losses on investments	65,158	182,942	136,844	25,179

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 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	(217,514)	29,147	192,941	370,486
- equity instruments	(61,417)	141,256	(21,234)	35,506
- debt securities	(171,215)	(110,106)	220,725	370,203
- valuation of liabilities to participants in the consolidated investment funds	15,118	(2,003)	(6,550)	(35,223)
Financial instruments held for trading, including:	(199,534)	39,890	83,910	192,960
- equity instruments	(94,702)	80,405	39,795	108,294
- debt securities	(9,073)	6,527	26,332	58,116
- derivatives	(95,759)	(47,042)	17,783	26,550
Investment property	7,863	182	(20,702)	(24,237)
Total net change in the fair value of assets and liabilities measured at fair value	(409,185)	69,219	256,149	539,209

8.6. Other operating income

Other operating income	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Commission on claims representative services	1,675	3,751	1,715	3,670
Release of provisions	1,786	2,176	27,791	28,186
Reinsurance commissions and share in reinsurers' profits	6,672	12,536	2,987	6,977
Revenue from sale of products, goods and services by non-insurance companies	114,630	196,719	75,893	129,551
Income from co-insurance settlements	-	23,471	-	-
Revenues from direct claims handling	48,016	80,550	12,909	12,909
Other	29,943	50,259	21,722	63,574
Total other operating income	202,722	369,462	143,017	244,867

8.7. Net claims and benefits

Claims and benefits	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Claims and change in technical provisions – non-life insurance	1,576,492	2,898,856	1,311,524	2,448,552
Reinsurers' share in claims and change in technical provisions – non-life insurance	(16,724)	(78,366)	(29,092)	(60,119)
Claims and change in technical provisions – life insurance	1,400,828	3,185,999	1,471,586	3,029,826
Reinsurers' share in claims and change in technical provisions – life insurance	(93)	(128)	(97)	(172)
Total claims and benefits	2,960,503	6,006,361	2,753,921	5,418,087

8.8. Change in measurement result of investment contracts

Change in measurement result of investment contracts	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Resulting from investment contracts with guaranteed and fixed terms and conditions	408	4,123	3,037	9,207
- interest expenses included in the effective interest rate	408	4,123	3,037	9,207
Resulting from unit-linked investment contracts	(6,887)	11,509	(1,929)	(3,182)
Total change in measurement result of investment contracts	(6,479)	15,632	1,108	6,025

8.9. Administrative expenses, acquisition costs and claims handling expenses, by type

Administrative expenses, acquisition costs and claims handling expenses, by type	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Consumption of materials and energy	21,363	54,775	20,983	40,690
External services	181,258	340,711	116,859	230,893
Taxes and charges	14,637	32,884	13,876	50,407
Employee expenses	429,271	809,330	351,820	680,901
Depreciation of property, plant and equipment	21,544	40,757	17,349	34,643
Amortization of intangible assets	24,556	46,824	17,073	33,865
Other (by type), including:	626,154	1,203,320	521,745	1,020,871
- commissions from direct activity	464,994	910,416	391,968	799,422
- advertisement	42,728	66,387	34,714	42,299
- commissions from indirect activity	52,645	105,803	50,574	103,640
- other	65,787	120,714	44,489	75,510
Change in deferred acquisition costs	(134,336)	(185,320)	(6,075)	(37,709)
Total administration expenses, acquisition costs and claims handling expenses	1,184,447	2,343,281	1,053,630	2,054,561

8.10. Other operating expenses

Other operating expenses	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Amortization of intangible assets acquired in business combinations	47,096	106,675	-	-
Costs of direct claims handling	49,270	83,251	14,120	14,120
Recognition of provisions	4,871	8,988	14,722	16,189
Non-insurance companies' operating costs	92,500	197,192	76,406	137,441
Expenses due to prevention activities	17,033	42,971	14,176	22,592
Compulsory payments to the insurance market authorities	17,026	36,028	13,906	30,443
Insurance Guarantee Fund	10,373	20,019	8,683	17,577
National Headquarters of the State Fire Service and Volunteer Fire Service Association	2,784	24,728	2,652	23,408
Costs of co-insurance settlements	-	23,471	-	-
Other	71,361	119,128	51,236	110,821
Total other operating expenses	312,314	662,451	195,901	372,591

8.11. Financing expenses

Financing expenses	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Interest, including:	26,041	57,753	27,681	59,313
- sell-buy-back transactions	17,588	39,277	25,126	54,214
- issued debt securities	8,037	16,011	-	-
- loans	439	2,435	2,550	5,070
- other	(23)	30	5	29
Other, including:	51,979	(39,726)	(66)	500
- foreign exchange differences from own debt securities	52,707	(33,789)	-	-
- other foreign exchange differences	(2,372)	(7,601)	(337)	37
- other	1,644	1,664	271	463
Total financing expenses	78,020	18,027	27,615	59,813

8.12. Earnings per share

Earnings per share	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Net profit from continued operations attributable to equity holders of the parent entity	380,261	1,321,593	959,905	1,720,351
Basic and diluted weighted average number of ordinary shares	86,351,949	86,351,949	86,351,949	86,351,949
Number of issued shares	86,352,300	86,352,300	86,352,300	86,352,300
Number of treasury shares (held by consolidated investment funds)	(351)	(351)	(351)	(351)
Basic and diluted profit (loss) per ordinary share (in PLN)	4,40	15,30	11,12	19,92

During the 6 months ended on 30 June 2015, there was no discontinuation of any activity.

During the 6 months ended on 30 June 2015, there were no transactions or events causing dilution to the gain per share.

Information concerning the planned split of PZU shares is presented in point 17.2.

8.13. Tax relating to other comprehensive income

Tax relating to other comprehensive income	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Other comprehensive income	(32,020)	(51,238)	7,917	20,500
Income tax	11,386	6,181	(2,350)	(5,458)
Measurement of AFS financial instruments	12,356	7,222	(1,985)	(4,826)
Property reclassified from property, plant and equipment to investment property	(970)	(1,041)	(365)	(632)
Net other comprehensive income	(20,634)	(45,057)	5,567	15,042

8.14. Intangible assets

The drop in the value of intangible assets between 30 June 2015 and 31 December 2014 was mainly due to amortization of intangible assets obtained in business combinations (customer relations, broker relations, present value of future profits) in the amount of PLN 106,675 thousand.

8.15. Goodwill

Goodwill	30 June 2015	31 December 2014
Lietuvos Draudimas AB	353,117	360,018
Link4	221,377	236,813
Codan branch	110,535	112,319
AAS Balta	37,649	38,258
Medical companies	34,428	29,580
Other	8,619	8,675
Goodwill total	765,725	785,663

During the 6 months ended on 30 June 2015 and during 2014, there were no impairment losses.

8.16. Entities measured using the equity method

Associates and joint ventures	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górnicy Klub Ubezpieczonych SA		Armatura Tower sp. z o.o.	
Nature of the relationships between PZU and the entity	Associate – non-strategic		Associate – non-strategic		Joint-venture – non-strategic	
Seat of the entity	Wrocław		Tychy		Kraków	
Share in the capital of the entity	28.58%	28.58%	30.00%	30.00%	50.00%	50.00%
Share in the votes of the entity	25.41%	25.41%	30.00%	30.00%	50.00%	50.00%
Valuation method in the consolidated financial statements	Equity method		Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS		IFRS	
Carrying amount of the involvement in the entity	65,724	65,707	569	586	15	18
Fair value of the involvement in the entity	49,714	52,737	None – entity is not listed	None – entity is not listed	None – entity is not listed	None – entity is not listed
Dividends received from the entity	-	-	-	36	-	-
Basic financial information						
Assets, including:	257,225	242,652	2,796	2,513	30	35
Short-term assets, including:	66,398	50,469	2,258	2,003	30	35
Cash and cash equivalents	15,483	16,931	1,966	1,752	25	32
Long-term assets	190,827	192,183	538	510	-	-

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Associates and joint ventures	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014
Equity	156,521 ¹⁾	137,249	1,896	1,960	28	35
Liabilities, including:	100,704	105,403	900	553	2	-
Short-term liabilities, including:	53,641	60,168	900	553	2	-
Short-term financial liabilities	15,633	23,930	-	-	-	-
Long-term liabilities, including:	47,063	45,235	-	-	-	-
Long-term financial liabilities	27,540	24,286	-	-	-	-
Revenue from core operations	130,523	243,132	1,132	1,076	-	-
Depreciation and amortization	6,680	12,608	78	49	-	-
Interest income	89	831	39	133	-	-
Interest expense	1,015	2,419	-	-	-	-
Income tax	669	(1,211)	14	29	-	-
Comprehensive income, including:	(618)	(6,459)	(64)	27	(7)	(15)
Net financial profit/(loss), including:	(722)	(5,817)	(64)	27	(7)	(15)
Net profit/(loss) from continued operations	(722)	(5,817)	(64)	27	(7)	(15)
Net profit/(loss) from discontinued operations	-	-	-	-	-	-
Other comprehensive income	104	(642)	-	-	-	-

¹⁾ The amount includes a PLN 20,000 thousand equity raise registered on 9 July 2015.

There are no restrictions (e.g. arising from the arrangements for loans, regulatory requirements or contracts) concerning the possibility of transfer of funds by associates and joint venture in the form of cash dividends.

8.17. Financial assets

The 1 January 2015 change of the asset use intention forced reclassification of some assets from available for sale to held to maturity. As at reclassification, the asset carrying amount was PLN 83,620 thousand. As at 30 June 2015, the carrying amount was PLN 83,876 thousand.

The above operation was the only reclassification of financial instruments from groups measured at fair value to those measured at cost or amortized cost made during the period of 6 months ended 30 June 2015. In 2014, no such reclassification was made.

8.17.1. Financial instruments held to maturity

Financial instruments held to maturity	30 June 2015	31 December 2014
Instruments for which fair value may be determined	20,077,667	19,983,689
Debt securities	20,077,667	19,983,689
Government securities	19,887,980	19,796,986
Fixed rate	18,642,829	18,555,389
Floating rate	1,245,151	1,241,597
Other	189,687	186,703
Listed on a regulated market	68,065	63,909
Fixed rate	68,065	63,909
Not listed on a regulated market	121,622	122,794
Floating rate	121,622	122,794
Total financial instruments held-to-maturity	20,077,667	19,983,689

As at 30 June 2015, the fair value of financial instruments held to maturity was PLN 22,408,953 thousand (as at 31 December 2014: PLN 23,524,392 thousand).

8.17.2. Financial instruments available for sale

Financial instruments available for sale	30 June 2015	31 December 2014
Instruments for which fair value may be determined	3,099,613	2,982,164
Equity instruments	764,348	547,299
Listed on a regulated market	359,737	357,732
Not listed on a regulated market	404,611	189,567
Debt securities	2,335,265	2,434,865
Government securities	1,867,792	1,922,939
Fixed rate	1,773,315	1,868,605
Floating rate	94,477	54,334
Other	467,473	511,926
Listed on a regulated market	234,807	272,564
Fixed rate	192,392	221,413
Floating rate	42,415	51,151
Not listed on a regulated market	232,666	239,362
Floating rate	232,666	239,362
Instruments for which fair value may not be determined	3,134	3,158
Equity instruments	3,134	3,158
Not listed on a regulated market	3,134	3,158
Total financial instruments available for sale	3,102,747	2,985,322

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

Financial instruments measured at fair value through profit or loss	30 June 2015	31 December 2014
Instruments classified as such upon initial recognition	12,043,622	12,571,137
Equity instruments	2,222,783	1,482,597
Listed on a regulated market	2,181,401	1,443,739
Not listed on a regulated market	41,382	38,858
Debt instruments	9,820,839	11,088,540
Government securities	9,562,831	11,005,221
Fixed rate	8,166,235	9,814,334
Floating rate	1,396,596	1,190,887
Other	258,008	83,319
Listed on a regulated market	258,008	83,319
Fixed rate	258,008	83,319
Instruments held for trading	6,666,056	6,525,347
Equity instruments	4,491,351	4,463,405
Listed on a regulated market	1,328,407	1,572,464
Not listed on a regulated market	3,162,944	2,890,941
Debt securities	1,742,934	1,515,539
Government securities	1,669,153	1,441,296
Fixed rate	1,662,597	1,409,570
Floating rate	6,556	31,726
Other	73,781	74,243
Not listed on a regulated market	73,781	74,243
Floating rate	73,781	74,243
Derivative instruments	431,771	546,403
Total financial instruments at fair value through profit or loss	18,709,678	19,096,484

8.17.4. Loans

Loans	30 June 2015	31 December 2014
Debt securities	2,865,003	2,990,555
Government securities	9,176	35,146
Fixed rate	9,176	35,146
Other	2,855,827	2,955,409
Listed on a regulated market	-	3,882
Fixed rate	-	3,882
Not listed on a regulated market	2,855,827	2,951,527
Floating rate	2,855,827	2,951,527
Other, including:	9,846,540	11,703,926
- buy-sell-back transactions	2,854,682	3,250,173
- term deposits with credit institutions	4,535,428, ¹⁾	6,143,781
- loans	2,456,430, ²⁾	2,309,972
Total loans	12,711,543	14,694,481

¹⁾ More than 84% of term deposits with credit institutions are PLN deposits and over 12% are EUR deposits. Over 85% of deposits mature before the end of December 2015.

²⁾ 100% of the loans are the ones secured with pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral.

As at 30 June 2015, the fair value of the debt securities was PLN 2,900,938 thousand (as at 31 December 2014: PLN 3,091,685 thousand), while the fair value of loans was PLN 2,484,727 thousand (as at 31 December 2014: PLN 2,398,454 thousand). Due to the short-term nature, the fair value of *buy-sell-back* transactions and term deposits with credit institutions was not considerably different from their carrying amounts.

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

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

Debt securities issued by state treasuries other than the Republic of Poland

Balance as at 30 June 2015	Currency	Valuation method	Purchase price	Carrying amount	Fair value	Impairment loss
Bulgaria	EUR	at fair value	24,715	24,498	24,498	-
Bulgaria	EUR	at amortized cost	10,818	11,148	10,623	-
Croatia	USD	at fair value	6,092	8,168	8,168	-
Croatia	EUR	at amortized cost	14,700	14,951	14,640	-
Ireland	EUR	at fair value	6,878	6,915	6,915	-
Ireland	EUR	at amortized cost	7,316	7,382	7,373	-
Iceland	USD	at fair value	24,745	31,047	31,047	-
Lithuania	EUR	at fair value	442,655	469,522	469,522	-
Lithuania	USD	at fair value	4,927	6,689	6,689	-
Lithuania	EUR	at amortized cost	57,837	59,156	58,685	-
Latvia	EUR	at fair value	64,232	67,529	67,529	-
Latvia	USD	at fair value	31,236	38,150	38,150	-
Latvia	EUR	at amortized cost	19,024	19,116	18,042	-
Romania	EUR	at fair value	78,092	84,817	84,817	-
Romania	RON	at fair value	17,163	18,082	18,082	-
Romania	USD	at fair value	15,631	21,354	21,354	-
Romania	EUR	at amortized cost	24,618	24,987	24,395	-
Sri Lanka	USD	at fair value	15,068	14,926	14,926	-
Ukraine	USD	at fair value	4,005	3,984	3,984	-
Ukraine	UAH	at fair value	8,791	6,326	6,326	-
Ukraine	UAH	at amortized cost	31,161, ¹⁾	12,561, ¹⁾	13,289	-
Ukraine	USD	at amortized cost	1,518	1,853	1,904	-
Hungary	EUR	at fair value	111,052	111,980	111,980	-
Hungary	HUF	at fair value	225,779	216,251	216,251	-
Hungary	USD	at fair value	7,801	10,196	10,196	-
Hungary	EUR	at amortized cost	12,495	12,783	12,749	-
other	EUR/USD	at fair value	48,133	51,690	51,690	-
other	EUR	at amortized cost	7,921	8,073	7,993	-
Total			1,324,403	1,364,134	1,361,817	-

¹⁾ In case of these bonds, every six months takes place the repayment of the nominal value of the bonds at a fixed rate of UAH 100 (i.e. 10% of the nominal value of the bonds). The purchase price shows the actual price paid by the company and does not include the repayment of the nominal value.

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

¹⁾In case of these bonds, every six months takes place the repayment of the nominal value of the bonds at a fixed rate of UAH 100 (i.e. 10% of the nominal value of the bonds). The purchase price shows the actual price paid by the company and does not include the repayment of the nominal value.

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

8.17.6. Debt securities issued by corporations and local government authorities

As at 30 June 2015	Valuation method	Purchase price	Carrying amount	Fair value	Impairment loss
WIG index companies – banks	at fair value	318,814	320,370	320,370	-
	at amortized cost	1,617,926	1,633,961	1,641,511	-
WIG index companies - fuels	at fair value	303,226	306,846	306,846	-
	at amortized cost	700,000	700,628	714,024	-
WIG index companies – chemical	at amortized cost	1,211	1,218	1,223	-
WIG index companies – energy	at amortized cost	315,000	316,254	312,776	-
Domestic banks, not listed	at amortized cost	20,000	20,240	22,540	-
Foreign banks	at fair value	23,846	23,970	23,970	-
	at amortized cost	70,843	72,830	77,445	-
Mortgage banks	at fair value	41,983	42,415	42,415	-
Local governments	at fair value	45,632	56,462	56,462	-
	at amortized cost	50,000	50,851	57,232	-
Other	at fair value	49,697	49,199	49,199	-
	at amortized cost	66,011	67,072	68,680	-
WIG index companies – Raw materials – written down	at amortized cost	200,000	182,460	197,911	16,226
Other impaired	at fair value	11,630	-	-	11,630
Foreign banks – impaired in full	at amortized cost	1,142	-	-	1,142
Total		3,836,961	3,844,776	3,892,604	28,998

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

8.17.7. Derivative instruments

Derivatives – assets	30 June 2015	31 December 2014
Interest rate derivative instruments	364,008	506,919
Unlisted instruments (OTC) including:	364,008	506,919
- FRA transactions	2,610	7,203
- SWAP transactions	361,398	499,716
Exchange rate derivative instruments	1,966	14,975
Unlisted instruments (OTC) including:	1,966	14,975
- forward transactions	-	720
- SWAP transactions	1,966	13,016
- call options	-	994
- put options	-	245
Derivative instruments related to the prices of securities	65,797	24,509
Listed instruments, including:	42,260	1,843
- call options	36,632	1,843
- put options	5,628	-
Unlisted instruments (OTC) including:	23,537	22,666
- call options	23,537	22,666
Total derivatives – assets	431,771	546,403

Derivatives – liabilities	30 June 2015	31 December 2014
Interest rate derivative instruments	435,096	556,426
Listed instruments, including:	18,544	-
- future contracts	18,544	-
Unlisted instruments (OTC) including:	416,552	556,426
- FRA transactions	1,366	5,735
- SWAP transactions	415,186	550,691
Exchange rate derivative instruments	31,816	57,782
Listed instruments, including:	-	9,516
- future contracts	-	9,516
Unlisted instruments (OTC) including:	31,816	48,266
- forward transactions	4,869	15,633
- SWAP transactions	26,947	32,633
Derivative instruments related to the prices of securities and goods	2,132	11,636
Listed instruments, including:	2,132	9,516
- future contracts	2,132	9,516
Unlisted instruments (OTC) including:	-	2,120
- future contracts	-	2,120
Total derivatives – liabilities	469,044	625,844

8.17.8. Changes in the economic climate and business conditions affecting the fair value of financial assets and liabilities

8.17.8.1. Capital market

Following significant fluctuations in January, the levels of Polish stock exchange indices continued growing until May in the current year. In mid-May, the WIG index exceeded the value of 57 thousand points, reaching its highest level since

2007. Higher stock prices were stimulated by quantitative ease and favorable data concerning the Polish economy and its external environment. The situation was severely impacted by the economic downturn of Greece, the escalation of which led to a significant increase of risk aversion in financial markets. The declines in indices in the second half of May and in June significantly overshadowed the increases generated in the previous months. Ultimately, in the period between the end of December 2014 and the end of June in the current year, the WIG index increased by 3.7%, while the WIG20 index increased by as little as 0.1%.

8.17.8.2. Interest rates and inflation

By the end of April in the current year, the yields of Polish treasury bonds were characterized by relatively strong fluctuations, without, however, a clearly defined direction. On the one hand, they were influenced by a low inflation ratio and quantitative easing within the euro zone, which contributed to a temporary decline in the 10-year German government bond yields below 0.10%. On the other hand, the increase in yields in Poland was influenced by better prospects for the economic growth and temporary periods of increased risk aversion in financial markets that were caused, among other things, due to the problems faced by Greece and the Ukrainian-Russian conflict. In terms of the Polish treasury bonds with shorter maturity periods, the decision of the National Bank of Poland to cut interest rates in Poland by 50 basis points in March this year was also significant.

The end of April and the beginning of May this year brought a fundamental change of the treasury bond market situation. In most markets, especially in Europe, a significant increase in yields was recorded. The probable reason behind this was an increase of the inflation ratio in Germany and credit growth in the euro zone under conditions of reduced market liquidity. The impact of quantitative easing in the euro zone lost its advantage over other issues important for the bond market. During this period in Poland, there was also a period of increases in government bond yields. These increases, especially in case of debt securities with longer maturity periods, were influenced by the financial problems of Greece and the associated increase in markets' risk aversion. Ultimately, the Polish yield curve from the end of December 2014 to the end of June 2015 moved up by 21 basis points for 2-year treasury bonds and 60 and 79 basis points for 5- and 10-year bonds, respectively.

8.17.8.3. Foreign exchange rates

In the first half of 2015, the US dollar significantly strengthened, both in relation to the Polish zloty and the euro. The USD/PLN rate increased by as much as 7.3% at the end of June, compared with the end of 2014. As a result of lifting the cap on the Swiss franc, this currency has also gained significant value in Poland. The CHF/PLN rate increased by as much as 14.0% in the analyzed period. Simultaneously, the Polish zloty slightly strengthened in relation to the euro – the EUR/PLN rate decreased by 1.6%.

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

Information concerning the reclassification of financial asset is presented in point 8.17.

8.18. Fair value

8.18.1. Description of valuation techniques

8.18.1.1. Debt securities

The fair value of debt securities are determined based on quotations available to the public on an active market; when no such quotations are available, using the valuation models applied to public quotations of financial instruments, interest rates and stock market indices.

The fair value of debt securities for which an active market does not exist is measured using the discounted cash flow method. Discount factors are determined based on the treasury securities yield curve shifted by the credit spread. It is calculated as the difference between the yield on listed debt securities of issuers with a similar rating operating in similar industries and the yield on government bonds (German government bonds for bonds denominated in EUR).

8.18.1.2. Capital financial assets

The fair value of capital financial assets is measured based on public quotations of the active market.

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

8.18.1.3. Derivative instruments

For derivative instruments traded on an active market, fair value shall be the closing price on the balance sheet date.

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

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

8.18.1.4. Liabilities resulting from unit-linked investment contracts

The liabilities resulting from unit-linked investment contracts are measured according to the fair value of assets covering the liabilities of the capital fund linked to the given investment contract.

8.18.1.5. Liabilities to participants in the consolidated investment funds

The liabilities towards the members of consolidated investment funds are measured according to the fair value of investment fund assets (by share in net investment fund assets).

8.18.2. Fair value hierarchy

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

- Level I – assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
 - listed liquid debt securities;
 - shares listed on stock exchanges;
 - derivatives listed on stock exchanges;
- Level II – assets and liabilities measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market. The level includes:
 - unlisted debt securities and illiquid listed debt securities (including non-treasury debt securities issued by other financial institutions, local authorities, non-financial institutions);
 - derivatives other than listed on stock exchanges;

- participation units in investment funds;
 - liabilities to participants in consolidated investment funds;
 - unit-linked investment contracts.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data).
- In a situation where input data classified into different levels of fair value hierarchy is used for measurement of asset or liability elements, the measured component is attributed to the lowest level, from which the input data originate, which have a significant impact on the overall measurement.

Assets and liabilities measured at fair value as at 30 June 2015	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	2,391,690	707,923	-	3,099,613
Equity instruments	359,737	404,611	-	764,348
Debt securities	2,031,953	303,312	-	2,335,265
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	11,974,403	69,219	-	12,043,622
Equity instruments	2,181,795	40,988	-	2,222,783
Debt securities	9,792,608	28,231	-	9,820,839
Financial instruments measured at fair value through profit or loss – held for trading	3,039,820	3,626,236	-	6,666,056
Equity instruments	1,328,407	3,162,944	-	4,491,351
Debt securities	1,669,153	73,781	-	1,742,934
Derivative instruments	42,260	389,511	-	431,771
Liabilities				
Derivative instruments	20,676	448,368	-	469,044
Liabilities to participants in the consolidated investment funds	-	602,600	-	602,600
Unit-linked investment contracts	-	471,816	-	471,816

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

8.18.3. Reclassifications between fair value levels

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

No significant transfers between Level I and Level II were made during the 6 months ended on 30 June 2015 and in 2014.

Elements of assets or liabilities are reclassified between levels II and III (respectively between levels III and II) when:

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

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

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

In the period of 6 months ended on 30 June 2015, there were no changes introduced to method of measuring fair value of financial instruments measured at fair value, the value of which is significant from the financial statements perspective.

8.19. The highest and the best use of the non-financial asset component and its current use

As at 30 June 2015 and 31 December 2014, the current use of one item of investment property (carrying amount of PLN 2,822 thousand) was not the highest and best use. However, the carrying amount measurement assumes its highest and best use.

The aforesaid property is land with a non-permanent structure which requires demolition, with construction of new facilities being the most optimum use.

8.20. Receivables, including insurance receivables

Receivables, including insurance receivables – balance sheet amount	30 June 2015	31 December 2014
Receivables from direct insurance, including:	1,746,673	1,710,083
- receivables from policyholders	1,550,526	1,557,003
- receivables from insurance intermediaries	143,102	127,271
- other receivables	53,045	25,809
Receivables from reinsurance	46,546	28,682
Other receivables	1,507,436	1,330,048
Total receivables, including insurance receivables (net)	3,300,655	3,068,813

Both as at 30 June 2015 and 31 December 2014, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the impairment losses policy.

8.20.1. Other receivables

Other receivables	30 June 2015	31 December 2014
Receivables from the State Budget, other than due to income tax	39,299	153,174
Receivables from Metro Projekt sp. z o.o.	-	109,478
Receivables relating to prevention activities	64,060	64,647
Receivables from claims representative services	9,480	9,081
Receivables from security transactions and collateral deposits	1,164,136	758,394
Trade receivables	152,226	117,242
Receivables from direct claims handling	35,880	34,086
Receivables from payments for the purchase of shares	-	20,890
Other	42,355	63,056
Total other receivables	1,507,436	1,330,048

Receivables from Metro Projekt sp. z o.o. and related matters have been described in point 16.6.

The item "Receivables from security transactions and collateral deposits" presents receivables related to transactions regarding financial instruments which have been concluded but not settled.

8.21. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	30 June 2015	31 December 2014
Unearned premium reserve	235,858	302,173
Unexpired risk reserve	226	-
Provisions for outstanding claims and benefits, including:	304,194	296,900
- for claims reported	252,093	228,795
- for claims incurred but not reported (IBNR)	30,465	46,259
- for claims handling expenses	21,636	21,846
Provision for the capitalized value of annuities	167,386	154,042
Provisions for bonuses and rebates	-	-
Total reinsurers' share in technical provisions	707,664	753,115

• Impairment of financial assets and receivables

Changes in impairment losses on financial assets between 1 January and 30 June 2015	Impairment losses – opening balance	Recognition of impairment losses, included in the statement of profit and loss	Reversal of impairment losses included in the statement of profit and losses	Derecognition of impairment losses (sales, write-offs, etc.)	Foreign exchange difference	Other changes in write-off	Impairment losses – closing balance
Financial assets available for sale	158,163	-	-	-	(218)	-	157,945
Equity instruments	158,163	-	-	-	(218)	-	157,945
Financial assets held to maturity	1,235	-	-	-	(19)	-	1,216
Debt instruments	1,235	-	-	-	(19)	-	1,216
Loans	25,020	7,039	-	-	11	-	32,070
Debt securities	10,144	6,083	-	-	-	-	16,227
Term deposits with credit institutions	-	956	-	-	28	-	984
Loans	14,876	-	-	-	(17)	-	14,859
Receivables, including under insurance contracts	593,647	71,445	(54,366)	(425)	(1,167)	(1,679)	607,455
Receivables from direct insurance	565,901	68,961	(52,891)	(147)	(955)	124	580,993
Receivables from reinsurance	5,021	1,713	(1,238)	-	-	-	5,496
Other receivables	22,725	771	(237)	(279)	(211)	(1,803)	20,966
Reinsurers' share in technical provisions	17,531	3,980	(3,541)	-	-	-	17,970
Cash and cash equivalents	-	1,388	-	-	41	-	1,429
Total	795,596	83,852	(57,907)	(425)	(1,352)	(1,679)	818,085

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

¹⁾ Including release from impairment losses in the amount of PLN 26,275 thousand due to the mortgage loan extended to Metro-Projekt sp. z o.o. described in point 16.6.

²⁾ This item presents the reclassification of impairment losses due to PZU Lietuva's assets to assets held for sale due to the transaction described in 17.9.

Changes in impairment losses on financial assets between 1 January and 30 June 2014	Impairment losses – opening balance	Impairment losses recognized in the statement of profit and losses	Reversal of impairment losses included in the statement of profit and losses	Derecognition of impairment losses (sales, write-offs, etc.)	Foreign exchange difference	Change in composition of the group	Impairment losses – closing balance
Financial assets available for sale	154,899	3,400	-	-	(533)	-	157,766
Equity instruments	154,899	3,400	-	-	(533)	-	157,766
Financial assets held to maturity	1,202	-	-	-	4	-	1,206
Debt instruments	1,202	-	-	-	4	-	1,206
Loans	24,725	-	-	-	33	-	24,758
Term deposits with credit institutions	9,797	-	-	-	33	-	9,830
Loans	14,928	-	-	-	-	-	14,928
Receivables, including under insurance contracts	651,579	37,818	(18,589)	(1,330)	(2,579)	67	666,966
Receivables from direct insurance	597,608	36,614	(15,251)	(356)	(2,091)	-	616,524
Receivables from reinsurance	4,619	232	(855)	-	-	-	3,996
Other receivables	49,352	972	(2,483)	(974)	(488)	67	46,446
Reinsurers' share in technical provisions	4,828	6,500	(5,220)	-	1	-	6,109
Total	837,233	47,718	(23,809)	(1,330)	(3,074)	67	856,805

8.22. Degree of risk exposure in investment activity

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

The report does not include receivables, including insurance receivables due to high diversification of those assets, resulting among others in significant share of receivables from small enterprises and natural persons who do not have ratings.

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Assets exposed to credit risk as at 30 June 2015	Note	AAA	AA	A	BBB	SBB	No rating	Assets at the customer's risk	Total
Debt securities		4,325	11,445	32,526,897	2,188,651	525,179	50,050	1,535,161	36,841,708
- held to maturity		-	-	19,945,560	84,577	41,702	5,828	-	20,077,667
- available for sale		-	10,891	2,243,800	54,691	-	25,883	-	2,335,265
- measured at fair value		4,325	554	9,243,026	372,424	389,944	18,339	1,535,161	11,563,773
- loans		-	-	1,094,511	1,676,959	93,533	-	-	2,865,003
Bank deposits and repo transactions involving treasury securities		-	-	5,276,379	1,844,386	105,733	111,128	52,484	7,390,110
Other loans		-	-	-	-	243,249	2,213,181	-	2,456,430
Derivative instruments		47,715	43,405	299,406	39,299	-	1,946	-	431,771
Reinsurers' share in net claim provisions		-	208,346	210,241	430	-	52,563	-	471,580
Receivables from reinsurance		-	17,561	22,724	675	-	5,586	-	46,546
Assets held for sale		-	20,998	66,621	90,824	24,594	32,608	-	235,645
Debt securities		-	-	45,646	90,824	24,594	7,155	-	168,219
Bank deposits		-	20,998	20,975	-	-	25,453	-	67,426
Total		52,040	301,755	38,402,268	4,164,265	898,755	2,467,062	1,587,645	47,873,790

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

The following table presents credit risk ratios used to measure credit risk:

Standard&Poor's ratings	AAA	AA	A	BBB	SBB	No rating ¹⁾
Ratio (%) for 30 June 2015	0.74	0.82	1.51	4.06	13.74	25.91
Ratio (%) for 31 December 2014	0.74	0.84	1.59	4.33	14.39	26.97

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

The credit risk, to which PZU Group was exposed as at 30 June 2015 amounted to PLN 1,514,508 thousand (PLN 1,639,172 thousand as at 31 December 2014; had ratios of 30 June 2015 been used, the risk would amount to PLN 1,562,795 thousand).

8.23. Other assets

Other assets	30 June 2015	31 December 2014
Reinsurance settlements	58,176	79,010
Deferred IT expenses	24,775	25,963
Co-insurance accruals	23,471	-
Receivables from direct claims handling	17,307	-
Inventory	110,647	84,762
Other assets	62,437	45,515
Total other assets	296,813	235,250

8.24. Assets held for sale

Assets held for sale before reclassification	30 June 2015	31 December 2014
Groups held for sale	142,631	188,747
Assets	396,107	440,761
Intangible assets	5,805	4,745
Property, plant and equipment	7,709	6,864
Financial assets	272,988	342,639
Receivables, including insurance receivables	35,472	32,106
Reinsurers' share in technical provisions	30,586	19,864
Estimated subrogations	7,089	6,988
Deferred tax assets	1,674	1,591
Deferred acquisition costs	16,228	15,399
Accruals	1,426	2,216
Other assets	-	2
Cash and cash equivalents	17,130	8,347
Liabilities directly associated with non-current assets classified as held for sale	253,476	252,014
Technical provisions	225,701	215,057
Provisions for employee benefits	1,934	1,464
Other liabilities	25,841	35,493
Other assets held for sale	130,019	165,849
Property, plant and equipment	37,646	51,534
Investment property	92,373	114,315
Assets and classes of assets held for sale	526,126	606,610
Liabilities directly associated with non-current assets classified as held for sale	253,476	252,014

The item "Groups held for sale" includes the assets and liabilities of PZU Lietuva, which will be sold under the transaction described in point 17.9. The purchase price for PZU Lietuva shares is greater than the value of the net assets held for sale, which is why they are not revalued to fair value less purchase costs.

"Investment property" presents property held by PZU and PZU Życie for sale as part of the portfolio optimization project.

8.25. Technical provisions

Technical provisions	30 June 2015	31 December 2014
Technical provisions – non-life insurance	18,617,827	18,410,647
Unearned premium reserve	5,336,315	5,133,390
Unexpired risk reserve	34,694	19,257
Claims provisions	7,223,543	7,258,764
Provisions for outstanding claims and benefits	6,020,636	5,997,595
Provisions for bonuses and rebates	2,639	1,641
Life insurance technical provisions	22,116,547	21,756,238
Unearned premium reserve	95,542	97,456
Life mathematical reserve	16,250,809	16,281,625
Provisions for outstanding claims and benefits	545,196	511,587
Provisions for bonuses and rebates	582	650
Other technical provisions	418,937	439,364
Unit-linked technical provisions	4,805,481	4,425,556
Total technical provisions	40,734,374	40,166,885

Change in technical provisions in non-life insurance

Change in unearned premiums reserve in non-life insurance	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	5,133,390	(302,118)	4,831,272	4,428,845	(209,940)	4,218,905	4,428,845	(209,940)	4,218,905
Increase in provisions for policies concluded in the current period	3,622,518	(94,547)	3,527,971	4,335,362	(258,368)	4,076,994	3,295,981	(141,364)	3,154,617
Decrease in provisions for policies concluded in previous years	(3,402,643)	157,749	(3,244,894)	(4,157,746)	174,566	(3,983,180)	(3,005,398)	136,465	(2,868,933)
Foreign exchange differences in the current period	(16,950)	3,114	(13,836)	(18,556)	5,948	(12,608)	(20,402)	4,406	(15,996)
Change in composition of the group	-	-	-	642,510	(19,282)	623,228	105,668	(1,609)	104,059
Transfers to category of assets held for sale in accordance with IFRS 5	-	-	-	(97,025)	4,958	(92,067)	-	-	-
Closing balance	5,336,315	(235,802)	5,100,513	5,133,390	(302,118)	4,831,272	4,804,694	(212,042)	4,592,652

Change in unexpired risk reserve in non-life insurance	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	19,257	-	19,257	8,770	(16)	8,754	8,770	(16)	8,754
Increase in provisions for policies concluded in the current period	25,306	(220)	25,086	17,077	12	17,089	10,056	6	10,062
Decrease in provisions for policies concluded in previous years	(9,506)	-	(9,506)	(5,316)	-	(5,316)	(5,995)	6	(5,989)
Foreign exchange differences in the current period	(363)	(6)	(369)	(561)	4	(557)	(496)	4	(492)
Change in composition of the group	-	-	-	12,739	-	12,739	-	-	-
Transfers to category of assets held for sale in accordance with IFRS 5	-	-	-	(13,452)	-	(13,452)	-	-	-
Closing balance	34,694	(226)	34,468	19,257	-	19,257	12,335	-	12,335

Change in provisions for outstanding claims and benefits in non-life insurance	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance, including:	7,258,764	(296,900)	6,961,864	6,041,030	(170,375)	5,870,655	6,041,030	(170,375)	5,870,655
- for claims reported	2,704,345	(228,795)	2,475,550	2,072,193	(121,826)	1,950,367	2,072,193	(121,826)	1,950,367
- for claims incurred but not reported (IBNR)	2,868,611	(46,259)	2,822,352	2,615,113	(29,989)	2,585,124	2,615,113	(29,989)	2,585,124
- for claims handling expenses	1,685,808	(21,846)	1,663,962	1,353,724	(18,560)	1,335,164	1,353,724	(18,560)	1,335,164
Paid claims concerning losses incurred in previous years, including	(1,326,182)	30,587	(1,295,595)	(1,575,921)	54,322	(1,521,599)	(1,020,561)	26,633	(993,928)
- claims paid	(1,130,985)	28,367	(1,102,618)	(1,313,456)	50,481	(1,262,975)	(873,197)	24,481	(848,716)
- claims handling expenses	(195,197)	2,220	(192,977)	(262,465)	3,841	(258,624)	(147,364)	2,152	(145,212)
Increase (decrease) in provisions, including:	1,301,553	(41,423)	1,260,130	2,450,810	(167,606)	2,283,204	1,129,551	(51,410)	1,078,141
- losses incurred in the current year	1,360,752	(38,871)	1,321,881	2,041,127	(44,022)	1,997,105	1,165,011	(17,500)	1,147,511
- losses incurred in the previous years	(59,199)	(2,552)	(61,751)	409,683	(123,584)	286,099	(35,460)	(33,910)	(69,370)
Other changes	-	219	219	2	8,789	8,791	-	782	782
Foreign exchange differences in the current period	(10,592)	3,340	(7,252)	(10,665)	6,304	(4,361)	(13,125)	5,251	(7,874)
Change in composition of the group	-	-	-	454,412	(42,844)	411,568	81,516	(27,527)	53,989
Transfers to category of assets held for sale in accordance with IFRS 5	-	-	-	(100,904)	14,510	(86,394)	-	-	-
Closing balance	7,223,543	(304,177)	6,919,366	7,258,764	(296,900)	6,961,864	6,218,411	(216,646)	6,001,765
- for claims reported	2,805,223	(252,076)	2,553,147	2,704,345	(228,795)	2,475,550	2,337,978	(175,656)	2,162,322
- for claims incurred but not reported (IBNR)	2,725,668	(30,465)	2,695,203	2,868,611	(46,259)	2,822,352	2,494,205	(22,397)	2,471,808
- for claims handling expenses	1,692,652	(21,636)	1,671,016	1,685,808	(21,846)	1,663,962	1,386,228	(18,593)	1,367,635

Change in provisions for capitalised value of annuities in non-life insurance	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	5,997,595	(154,042)	5,843,553	5,761,332	(146,180)	5,615,152	5,761,332	(146,180)	5,615,152
Paid claims concerning losses incurred in previous years	(93,030)	2,562	(90,468)	(182,358)	15,853	(166,505)	(90,579)	2,528	(88,051)
Increase (decrease) in provisions for losses incurred in the previous years	7,846	(16,163)	(8,317)	76,457	(17,444)	59,013	94,524	(8,138)	86,386
Unwinding of discount	(7,522)	43	(7,479)	(17,284)	446	(16,838)	(8,642)	223	(8,419)
Increase in provisions for losses incurred in the current year	115,862	(13)	115,849	278,344	(587)	277,757	128,184	-	128,184
Other changes	-	219	219	-	3,916	3,916	(26)	-	(26)
Foreign exchange differences during the period	(115)	8	(107)	(8)	40	32	6,151	-	6,151
Change in composition of the group	-	-	-	81,112	(10,086)	71,026	-	501	501
Closing balance	6,020,636	(167,386)	5,853,250	5,997,595	(154,042)	5,843,553	5,890,944	(151,066)	5,739,878

Change in technical provisions in life insurance

Change in provisions in life insurance, bonuses and rebates, and other technical provisions- insurance contracts	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Opening balance	16,721,639	-	16,721,639	16,526,794	-	16,526,794	16,526,794	-	16,526,794
Increase (decrease) in provisions related to current year policies	230,783	-	230,783	490,085	-	490,085	247,339	-	247,339
Increase (decrease) in provisions related to prior year policies	(264,108)	-	(264,108)	(306,608)	-	(306,608)	(86,523)	-	(86,523)
Changes in assumptions resulting from technical interest rate changes	-	-	-	45,395	-	45,395	-	-	-
Foreign exchange differences	(17,986)	-	(17,986)	(34,027)	-	(34,027)	(24,113)	-	(24,113)
Closing balance	16,670,328	-	16,670,328	16,721,639	-	16,721,639	16,663,497	-	16,663,497

Change provisions in life insurance - unit-linked contracts	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
Unit-linked net assets at the beginning of the period	4,425,556	-	4,425,556	3,907,221	-	3,907,221	3,907,221	-	3,907,221
Fund increases due to premiums	562,323	-	562,323	1,045,805	-	1,045,805	533,548	-	533,548
Payments deducted from fund	(43,550)	-	(43,550)	(90,026)	-	(90,026)	(43,935)	-	(43,935)
Fund investment income	109,520	-	109,520	147,597	-	147,597	91,541	-	91,541
Fund decreases due to benefits, redemption etc.	(242,712)	-	(242,712)	(547,991)	-	(547,991)	(203,600)	-	(203,600)
Other changes	(5,656)	-	(5,656)	(37,050)	-	(37,050)	(627)	-	(627)
Closing balance	4,805,481	-	4,805,481	4,425,556	-	4,425,556	4,284,148	-	4,284,148

Change in provisions for outstanding claims and benefits	1 January – 30 June 2015			1 January – 31 December 2014			1 January – 30 June 2014		
	gross	reinsurers' share	net	gross	reinsurers' share	net	gross	reinsurers' share	net
RBNP at the beginning of the period	112,728	-	112,728	138,366	-	138,366	138,366	-	138,366
IBNR at the beginning of the period	398,859	-	398,859	407,385	-	407,385	407,385	-	407,385
Total RBNP and IBNR at the beginning of the period	511,587	-	511,587	545,751	-	545,751	545,751	-	545,751
Provisions for claims utilized during the year	(483,095)	-	(483,095)	(523,413)	-	(523,413)	(447,029)	-	(447,029)
Provisions for claims created during the year	516,704	(17)	516,687	489,249	-	489,249	436,174	-	436,174
Total RBNP and IBNR at the end of the period	545,196	(17)	545,179	511,587	-	511,587	534,896	-	534,896
RBNP at the end of the period	132,880	(17)	132,863	112,728	-	112,728	126,844	-	126,844
IBNR at the end of the period	412,316	-	412,316	398,859	-	398,859	408,052	-	408,052

8.26. Investment contracts

Investment contracts – carrying amount	30 June 2015	31 December 2014
Investment contracts with guaranteed and fixed terms and conditions	317,213	520,840
- measured at amortized cost	317,213	520,840
Unit-linked investment contracts	471,816	587,267
Total investment contracts – carrying amount	789,029	1,108,107

8.27. Other provisions

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

Changes in other provisions in the year ended 31 December 2014	Opening balance	Increase	Utilization	Releases	Change in composition of the group	Foreign exchange differences	Closing balance
Provision for restructuring expenses	-	17,687	(8,333)	-	-	-	9,354
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(2,583)	-	-	781
Provision for the Office of Competition and Consumer Protection penalties ¹⁾	119,549	2	-	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	509	-	(28,785)	-	-	22,668
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	-	7,234
Other	11,021	14,878	(4,506)	(2,489)	12,522	192	31,618
Total other provisions	192,906	33,365	(13,006)	(34,773)	12,522	192	191,206

Changes in other provisions in the period between 1 January and 30 June 2014	Opening balance	Increase	Utilization	Releases	Change in composition of the group	Closing balance
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(138)	-	3,226
Provision for the Office of Competition and Consumer Protection penalties ¹⁾	119,549	2	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	382	-	(26,150)	-	25,176
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	7,234
Other	11,021	15,516	(2,077)	(982)	511	23,989
Total other provisions	192,906	16,189	(2,244)	(28,186)	511	179,176

¹⁾ The item "Provision for the Office of Competition and Consumer Protection penalties" is explained in points 16.2 and 16.3.

8.28. Liabilities arising from issuance of debt securities

On 3 July 2014, PZU (through its subsidiary PZU Finance AB (publ.)) issued five-year Eurobonds for the amount of EUR 500,000 thousand (as individual EUR 100 thousand bills).

The bonds bear interest at a fixed rate of 1.375% per year and the coupon is paid once a year (3 July).

Measurement of liabilities arising from issuance of debt securities	30 June 2015	31 December 2014
Carrying amount	2,109,880	2,127,527
Fair value measured with model	2,145,782	2,180,294

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

8.29. Other liabilities

Other liabilities	30 June 2015	31 December 2014
Accrued costs	534,883	743,655
Accrued costs of brokers' commissions	256,697	250,867
Accrued remuneration costs	87,284	131,759
Accrued costs from reinsurance	100,636	214,268
Accrued employee bonuses	35,323	94,558
Other	54,943	52,203
Upfront revenues	50,384	33,374
Other liabilities	8,603,507	8,584,248
Direct insurance liabilities	721,122	686,714
Reinsurance liabilities	162,643	94,384
Liabilities due to sell-buy-back transactions	3,309,381	4,411,497
Liabilities due to loans	116,318	219,452
Liabilities due to borrowings	-	53,952
Liabilities to participants in the consolidated investment funds	602,600	856,865
Liabilities to the budget other than due to the income tax	37,333	30,001
Public and legal settlements	27,844	25,701
Liabilities to employees	12,891	13,106
Insurance Guarantee Fund	12,070	11,794
Liabilities to KGSP (National Headquarters of the State Fire Service) and OSP (Volunteer Fire Service Association)	2,785	3,533
Liabilities due to financial instrument transactions	691,918	444,089
Liabilities to the Shareholders (dividends)	2,593,706	1,471,120
Trade payables to suppliers	123,348	89,787
Estimated non-insurance liabilities	126,112	133,359
Other	63,436	38,894
Total other liabilities	9,188,774	9,361,277

8.30. Additional information to other operating inflows and expenses

Other operating inflows	1 January – 30 June 2015	1 January – 30 June 2014
Inflows from core business of non-insurance companies	293,996	248,760
Tax returns (including CIT, VAT)	140,337	79,481
Other	276,662	140,599
Total	710,995	468,840

Other operating outflows	1 January – 30 June 2015	1 January – 30 June 2014
Return of gross premiums	236,321	240,000
Expenses of core business of non-insurance companies	344,847	278,416
Taxes	92,143	124,216
Other	217,091	286,909
Total	890,402	929,541

9. Contingent assets and liabilities

Contingent assets and liabilities	30 June 2015	31 December 2014
Contingent assets, including:	28,397	20,976
- guarantees and sureties received	28,397	20,976
Contingent liabilities	523,586	265,709
- guarantees and sureties issued	8,199	7,133
- disputable claims related to insurance	286,355	185,109
- other disputable claims	44,516	36,264
- other, including:	184,516	37,203
- liabilities from loan instalments unused by the borrowers as at the balance sheet date	145,980	-
- contingent liabilities arising from credit agreements concluded by Armatura Group	33,533	34,115

10. Equity management

On 26 August 2013 the Management Board and the Supervisory Board adopted the capital policy and dividend policy for PZU Group for the years 2013–2015. The premises of the capital and dividend policies are presented in the consolidated financial report for 2014.

10.1. External capital requirements

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

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

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

The principles of calculating own funds to cover the solvency margin are specified in the Insurance Activity Act and the principles for calculation of the solvency margin and the minimum value of the guarantee capital have been laid down in the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee capital for insurance sections and classes (Journal of Laws of 2003 no. 211, item 2060, as amended) (the "Solvency Margin Ordinance").

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

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

Calculation of own funds to cover the required solvency margin	30 June 2015	31 December 2014
PZU equity	11,098,586	12,328,724
Intangible assets	(301,872)	(283,999)
Value of shares in insurance companies operating within the insurance capital group of PZU	(5,661,481)	(6,065,985)
Deferred tax assets	(434,573)	(408,388)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	1,953,137	2,411,116
PZU Życie SA 100.00%	1,713,769	2,213,301
Own funds	3,510,039	3,996,487
Required solvency margin	1,796,270	1,783,186
Surplus of own funds to cover the solvency margin	1,713,769	2,213,301
Link4 SA 100.00%	61,836	55,638
Own funds	138,658	124,938
Required solvency margin	76,822	69,300
Surplus of own funds to cover the solvency margin	61,836	55,638
Lietuvos Draudimas AB 99.98%	100,019	127,853
Own funds	213,817	214,515
Required solvency margin	113,778	86,636
Surplus of own funds to cover the solvency margin	100,039	127,879
AAS Balta 99.99%	35,371	22,216
Own funds	78,200	62,207
Required solvency margin	42,825	39,989
Surplus of own funds to cover the solvency margin	35,375	22,218
UAB DK PZU Lietuva 99.88%	61,501	4,692
Own funds	98,963	76,220
Required solvency margin	37,388	71,522
Surplus of own funds to cover the solvency margin solvencies	61,575	4,698
UAB PZU Lietuva Gyvybes Draudimas 99.34%	3,236	5,696
Own funds	19,196	21,504
Required solvency margin	15,939	15,770
Surplus of own funds to cover the solvency margin	3,257	5,734
PrJSC PZU Ukraine 100.00%	(14,980)	(12,314)
Own funds	2,905	5,199
Required solvency margin	17,885	17,513
Shortage of own funds to cover the solvency margin	(14,980)	(12,314)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(7,615)	(5,966)
Own funds	8,324	9,437
Required solvency margin	15,939	15,403
Shortage of own funds to cover the solvency margin	(7,615)	(5,966)
Own funds of PZU	6,653,797	7,981,468
Required solvency margin of PZU	1,369,183	1,362,353
Guarantee fund of PZU	456,394	454,118
Surplus of own funds to cover the solvency margin	5,284,614	6,619,115
Surplus of own funds to cover the guarantee fund	6,197,403	7,527,350

11. Segment reporting

11.1. Reportable segments

11.1.1. Key division criterion

Operating segments are components of the entity for which separate financial information is available and that are regularly reviewed by the entity chief operating decision maker ("CODM", i.e. the Management Board of PZU) in order to allocate resources to the segment and assess its performance.

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

PZU and Link4 segments:

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

PZU Życie segments:

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

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

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

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

11.1.2. Geographical areas

PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltic states;
- Ukraine.

11.2. Settlements among segments

The net investment performance (the difference between realized and unrealized revenue and expenses) disclosed under corporate insurance (non-life insurance), mass client insurance (non-life insurance), group insurance and

individually continued insurance (life insurance) is determined in accordance with the transfer pricing based on the interest rate of the curves of the treasury securities profitability (risk-free rate). In the case of unit-linked insurance products with a guaranteed rate and for structured products, the net profit or loss on investments constituting coverage of the corresponding technical provisions is recognized.

11.3. Measure of profit of a segment

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

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

11.4. Information about segments

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

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

- pension insurance – reporting in accordance with National Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB, AAS Balta, PZU Lietuva, UAB PZU Gyvybes Draudimas and their branches in Latvia and Estonia;
- investment contracts – reporting in accordance with National Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products) discussed in point 11.5.2;
- other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under “other” is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose income is earned mainly from the manufacture of fittings, heaters, casting and services.

11.5. Polish Accounting Standards applied

11.5.1. PZU

National Accounting Standards and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna 2014, in accordance with PAS, approved by the Management Board on 16 March 2015 (“Separate financial statements of PZU for 2014”).

The separate financial statements of PZU for 2014 are available on the PZU website www.pzu.pl, under “Investor Relations” tab.

11.5.2. PZU Życie

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

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU Życie are presented in the consolidated financial statements for 2014.

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

11.6. Structure of the segment reporting note and reconciliations

Due to the fact that the profits of segments are measured in compliance with the accounting policies of the country of residence of PZU Group or IFRS, financial data from segments are recognized according to several different accounting standards. Moreover, due to significant differences in the formats of management reports submitted to the Management Board of PZU compared with the format of the financial statements prepared under IFRS, two separate reporting formats had to be used: the format of the management reports submitted to the Management Board of PZU (left-hand side of the note) and the format of the financial statements prepared under IFRS (right-hand side of the note).

As a consequence, reconciliation of the totals of income and profit or loss of the reportable segments with their consolidated counterparts as required by IFRS 8.28 included in the note is complex and comprises the following stages described in the segment note in the same order as the order of the reconciliation columns:

- transition from the format of the management reports submitted to the Management Board of PZU to the format of the financial statements prepared under IFRS (the "Differences in presentation" column), resulting in a number of changes in the presentation, including reclassification of other operating income and expenses to items presented under "profit (loss) from operations" in accordance with IFRS;
- reconciliation of differences between the accounting standards used for the presentation of differences in financial data of the segments and IFRS (and separate presentation of the key accounting standards);
- making consolidation adjustments (since it is the last phase of reconciliation – the adjustments have been presented in the format required under IFRS).

11.7. Simplifications in the segment note

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

- withdrawal from presentation of information about allocation of all assets and liabilities to individual segments – resulting from failure to prepare and present such information to the PZU Management Board. The key information submitted to the Management Board of PZU is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirements related to capital adequacy ratios and coverage of technical provisions in assets (analysis by individual insurance companies instead of product groups);
- presentation of the net profit or loss on an investment with a single amount expressed as a difference between realized and unrealized income and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- income and expenses other than realized and unrealized investment income and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- presentation of other operating income and expenses and financing expenses of the companies PZU, Link4 and PZU Życie for their operating segments combined (and as a result, not allocating any amounts in this respect to the "investment contracts" segment) – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation;
- presentation of tax charges expressed as a single sum of consolidated data – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation.

11.8. Information on key accounts

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

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Income Statement for the period from 1 April 2015 to 30 June 2015	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Presentation differences	Property and financial assets	Kontrakty inwestycyjne	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	Income Statement for the period from 1 April 2015 to 30 June 2015
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	391,702	1,678,408	1,676,718	341,449	-	-	39,052	318,294	30,809	-	-	-	(30,809)	-	-	4,445,623	Gross written premiums - external
Gross written premiums - cross-segment	(90)	61,211	-	-	-	-	-	-	-	-	-	-	-	-	(61,121)	-	Gross written premiums - cross-segment
Gross written premiums	391,612	1,739,619	1,676,718	341,449	-	-	39,052	318,294	30,809	-	-	-	(30,809)	-	(61,121)	4,445,623	
Reinsurers' share in gross written premium	(12,761)	(8,772)	59	-	-	-	(15,020)	(7,449)	-	-	-	1	-	-	21,081	(22,861)	Reinsurers' share in gross written premium
Net written premiums	378,851	1,730,847	1,676,777	341,449	-	-	24,032	310,845	30,809	-	1	-	(30,809)	-	(40,040)	4,422,762	Net written premium, including:
Changes in unearned premiums and unexpired risks reserves (gross)	26,843	3,320	(252)	(529)	-	-	(2,165)	(35,021)	-	-	(39,937)	-	-	-	61,850	14,111	Net change in unearned premiums provision
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	(37,301)	(10,429)	-	-	-	-	4,857	2,937	-	-	39,936	-	-	-	-	-	
Net earned premiums	368,393	1,723,738	1,676,525	340,920	-	-	26,725	278,762	30,809	-	-	-	(30,809)	-	21,810	4,436,873	Net earned premiums
Investment income, including:	35,796	152,716	135,820	32,414	936,314	1,754	1,357	1,886	(2,373)	17,901	(1,313,586)	-	2,508	-	(25,214)	54,752	Income from fees and commissions
Net investment result (external transactions)	35,796	152,716	135,820	32,414	(170,668)	1,754	1,356	1,887	(2,373)	17,901	(206,603)	-	-	-	-	-	
Net investment result (cross-segment transactions)	-	-	-	-	1,106,983	-	-	-	-	-	(1,106,983)	-	-	-	-	-	
											504,498	716	-	-	(54,464)	450,750	Net investment income (external transactions)
											1,106,983	-	-	-	(1,106,983)	-	Net investment revenues (cross-segment transactions)
											72,453	(13,173)	-	-	5,878	65,158	Net result on the realization and impairment losses of investments
											(373,920)	8,695	-	-	(43,960)	(409,185)	Net change in the fair value of assets and liabilities measured at fair value
Other technical income net of reinsurance	5,062	38,391	218	5	-	-	-	-	1	-	(43,677)	-	-	-	-	-	
Operating revenues of non-insurance companies	-	-	-	-	-	30,395	-	-	-	160,342	(190,737)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	494	-	-	-	(5,869)	256,349	2,630	(4)	-	(50,878)	202,722	Other operating revenue
Gross claims and benefits paid	(219,854)	(1,064,932)	(1,171,829)	(176,888)	-	-	(12,362)	(164,946)	(186,411)	-	(15,588)	-	21,826	-	13,664	(2,977,320)	Claims paid and change in technical provisions
Changes in provisions for outstanding claims and benefits (gross)	(88,109)	(41,931)	(4,628)	(9,067)	-	-	2,834	(17,960)	4,179	-	154,682	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	4,929	9,448	39	-	-	-	2,447	1,363	-	-	1,018	-	-	-	(2,426)	16,817	Reinsurers' share in claims paid and change in technical provisions
Reinsurers' share in change in provisions	(11,402)	5,630	-	-	-	-	(2,672)	9,954	-	-	(1,510)	-	-	-	-	-	
Net claims	(314,436)	(1,091,785)	(1,176,418)	(185,955)	-	-	(9,754)	(171,589)	(182,232)	-	138,602	-	21,826	-	11,238	(2,960,503)	Net claims
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	72,700	(93,184)	-	-	-	-	160,412	-	(139,928)	-	-	-	-	-	
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(705)	(3)	(121)	-	-	-	-	-	(5)	-	834	-	-	6,479	-	6,479	Benefits and change in valuation of investment contracts
Other technical charges - net of reinsurance	(9,791)	(73,919)	(23,033)	(1,964)	-	-	-	-	(216)	-	108,923	-	-	-	-	-	
Acquisition costs	(68,274)	(340,108)	(88,248)	(34,767)	-	(728)	(10,717)	(53,693)	(2,488)	-	-	-	-	-	21,322	(577,702)	Acquisition costs
Administrative expenses	(30,264)	(155,896)	(137,477)	(14,458)	-	(9,305)	(5,289)	(41,744)	(2,047)	-	-	1,165	-	(15,000)	(3,730)	(414,046)	Administrative expenses
Reinsurance commission and share in profits	6,432	(1,987)	(18)	-	-	-	-	-	-	-	(4,427)	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(149,617)	149,617	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(129)	-	-	-	(2,551)	(314,435)	(380)	-	18,131	(12,950)	(312,314)	Other operating expenses
Insurance result / Operating profit (loss)	(7,787)	251,147	459,948	43,011	936,315	22,481	2,320	13,623	1,861	20,206	35,007	(347)	-	3,131	(1,237,932)	542,984	Profit (loss) from operations
Other operating income	7,423	-	6,407	-	-	-	2,541	1,594	-	-	(17,965)	-	-	-	-	-	
Other operating expenses	(67,067)	-	(3,969)	-	-	-	(780)	(513)	-	(25,903)	(89,371)	-	-	-	37,254	(78,020)	Financial costs
Financial costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(215)	Share of net profits (losses) of entities accounted for under equity method
																464,749	Gross profit (loss)
																(84,562)	Tax
																380,187	Net profit (loss)

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Income Statement for the period from 1 January 2015 to 30 June 2015	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Presentation differences	Property and financial assets	Kontrakty inwestycyjne	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	Income Statement for the period from 1 January 2015 to 30 June 2015
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	802,183	3,623,873	3,337,934	680,111	-	-	74,291	608,058	74,297	-	-	-	-	(74,297)	-	9,126,450	Gross written premiums - external
Gross written premiums - cross-segment	1,781	65,123	-	-	-	-	-	-	-	-	-	-	-	-	(66,904)	-	Gross written premiums - cross-segment
Gross written premiums	803,964	3,688,996	3,337,934	680,111	-	-	74,291	608,058	74,297	-	-	-	-	(74,297)	(66,904)	9,126,450	
Reinsurers' share in gross written premium	(69,514)	(14,162)	809	4	-	-	(24,968)	(27,277)	-	-	-	-	-	-	42,717	(92,391)	Reinsurers' share in gross written premiums
Net written premiums	734,450	3,674,834	3,338,743	680,115	-	-	49,323	580,781	74,297	-	-	-	-	(74,297)	(24,187)	9,034,059	Net written premium, including:
Changes in unearned premiums and unexpired risks reserves (gross)	19,864	(279,431)	(893)	913	-	-	(5,089)	(38,327)	(11)	-	(38,288)	-	11	-	51,105	(290,146)	Net change in unearned premiums provision
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	(32,437)	(18,567)	-	-	-	-	5,626	7,090	-	-	38,288	-	-	-	-	-	
Net earned premiums	721,877	3,376,836	3,337,850	681,028	-	-	49,860	549,544	74,286	-	-	-	-	(74,286)	26,918	8,743,913	Net earned premiums
Investment income, including:	57,558	255,413	332,177	198,261	1,296,161	4,428	26,119	16,607	22,476	31,259	(2,240,459)	-	4,919	-	(46,830)	103,196	Income from fees and commissions
Net investment result (external transactions)	57,558	255,413	332,177	198,261	167,523	4,428	26,119	16,607	22,476	31,259	(1,111,821)	-	-	-	-	-	
Net investment result (cross-segment transactions)	-	-	-	-	1,128,638	-	-	-	-	-	(1,128,638)	-	-	-	-	-	
											847,148	1,402	-	-	(42,955)	805,595	Net investment income (external transactions)
											1,347,260	-	-	-	(1,347,260)	-	Net investment revenues (cross-segment transactions)
											199,407	(14,229)	-	-	(2,236)	182,942	Net result on the realization and impairment losses of investments
											(145,243)	220,576	-	-	(6,114)	69,219	Net change in the fair value of assets and liabilities measured at fair value
Other technical income net of reinsurance	13,503	80,976	571	5	-	-	-	-	-	-	(95,055)	-	-	-	-	-	
Operating revenues of non-insurance companies	-	-	-	-	-	56,751	-	-	-	278,884	(335,635)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	527	-	-	-	4,080	492,810	(1,482)	1	-	(126,474)	369,462	Other operating revenue
Gross claims and benefits paid	(438,941)	(2,098,769)	(2,397,805)	(373,177)	-	-	(49,436)	(352,502)	(404,087)	-	(83,932)	-	84,998	-	28,796	(6,084,855)	Claims paid and change in technical provisions
Changes in provisions for outstanding claims and benefits (gross)	(45,535)	20,382	(20,193)	(9,425)	-	-	2,985	(8,587)	2,252	-	58,121	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	11,452	18,165	74	-	-	-	4,017	9,905	-	-	37,192	-	-	-	(2,311)	78,494	Reinsurers' share in claims paid and change in technical provisions
Reinsurer's share in change in provisions	21,180	11,843	-	-	-	-	(3,309)	7,917	-	-	(37,631)	-	-	-	-	-	
Net claims	(451,844)	(2,048,379)	(2,417,924)	(382,602)	-	-	(45,743)	(343,267)	(401,835)	-	(26,250)	-	84,998	-	26,485	(6,006,361)	Net claims
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	(28,301)	(312,011)	-	-	-	-	316,844	-	23,468	-	-	-	-	-	
											-	-	(15,632)	-	-	(15,632)	Benefits and change in valuation of investment contracts
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(1,335)	(839)	(161)	-	-	-	-	-	(8)	-	2,343	-	-	-	-	-	
Other technical charges - net of reinsurance	(19,140)	(172,166)	(31,571)	(2,143)	-	-	-	-	(281)	-	225,301	-	-	-	-	-	
Acquisition costs	(130,508)	(662,540)	(180,934)	(65,782)	-	(1,468)	(20,696)	(128,087)	(5,116)	-	-	-	-	-	64,323	(1,130,808)	Acquisition costs
Administrative expenses	(62,857)	(318,125)	(284,303)	(30,466)	-	(20,623)	(9,372)	(78,143)	(4,562)	-	-	1,155	-	(15,000)	234	(822,062)	Administrative expenses
Reinsurance commission and share in profits	10,867	(1,737)	(154)	-	-	-	-	-	-	-	(8,976)	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(272,533)	272,533	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(140)	-	-	-	(8,458)	(620,294)	(124)	-	(7,706)	(25,729)	(662,451)	Other operating expenses
Insurance result / Operating profit (loss)	138,121	509,439	727,250	86,290	1,296,161	39,475	168	16,654	1,804	33,232	83,465	207,298	-	(22,706)	(1,479,638)	1,637,013	Profit (loss) from operations
Other operating income	187,933	-	26,798	-	-	-	3,463	7,287	-	-	(225,481)	-	-	-	-	-	
Other operating expenses	(149,687)	-	(13,179)	-	-	-	(2,060)	(18,760)	-	-	183,686	-	-	-	-	-	
Financial costs	-	-	-	-	-	-	-	-	-	(26,550)	(41,670)	-	-	-	50,193	(18,027)	Financial costs
															(32)	(32)	Share of net profits (losses) of entities accounted for under equity method
															1,618,954	1,618,954	Gross profit (loss)
															(297,427)	(297,427)	Tax
															1,321,527	1,321,527	Net profit (loss)

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Income Statement for the period from 1 April 2014 to 30 June 2014	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Presentation differences	Property and financial assets	Kontrakty inwestycyjne	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	Income Statement for the period from 1 April 2014 to 30 June 2014
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	476,624	1,534,690	1,635,281	317,594	-	-	37,852	81,872	111,333	-	-	-	(111,333)	-	-	4,083,914	Gross written premiums - external
Gross written premiums - cross-segment	1,133	(44)	-	-	-	-	-	-	-	-	-	-	-	-	(1,089)	-	Gross written premiums - cross-segment
Gross written premiums	477,757	1,534,646	1,635,281	317,594	-	-	37,852	81,873	111,333	-	-	-	(111,333)	-	(1,089)	4,083,914	Gross written premiums
Reinsurers' share in gross written premium	(49,000)	1,431	(603)	-	-	-	(6,041)	(3,121)	-	-	-	-	-	-	235	(57,099)	Reinsurers' share in gross written premium
Net written premiums	428,757	1,536,077	1,634,678	317,594	-	-	31,811	78,752	111,333	-	-	-	(111,333)	-	(854)	4,026,815	Net written premium, including:
Changes in unearned premiums and unexpired risks reserves (gross)	(69,203)	95,723	214	(165)	-	-	(4,600)	(11,128)	21	-	5,056	-	(21)	-	145	16,043	Net change in unearned premiums provision
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	11,712	(8,924)	-	-	-	-	4,527	(2,258)	-	-	(5,057)	-	-	-	-	-	
Net earned premiums	371,266	1,622,876	1,634,892	317,429	-	-	31,739	65,366	111,354	-	(1)	-	(111,354)	-	(709)	4,042,858	Net earned premiums
Investment income, including:	33,151	136,859	184,872	102,301	1,746,318	3,043	10,444	6,075	12,279	(1,533)	65,959	-	3,374	-	(11,123)	58,210	Income from fees and commissions
Net investment result (external transactions)	33,151	136,859	184,872	102,301	265,850	3,043	10,444	6,075	12,279	(1,533)	(2,233,809)	-	-	-	-	-	
Net investment result (cross-segment transactions)	-	-	-	-	1,480,468	-	-	-	-	-	(753,341)	-	-	-	-	-	
											(1,480,468)	-	-	-	(3,645)	434,824	Net investment income (external transactions)
											438,469	-	-	-	(1,476,905)	-	Net investment revenues (cross-segment transactions)
											1,476,905	-	-	-	(249)	136,844	Net result on the realization and impairment losses of investments
											136,696	397	-	-	(15,580)	256,149	Net change in the fair value of assets and liabilities measured at fair value
Other technical income net of reinsurance	1,870	16,300	(435)	(415)	-	-	-	-	2	-	251,318	20,411	-	-	(15,580)	256,149	
Operating revenues of non-insurance companies	-	-	-	-	-	33,477	-	-	-	120,694	(17,322)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	445	-	-	-	(7,927)	186,758	(307)	(2)	-	(35,950)	143,017	Other operating revenue
Gross claims and benefits paid	(195,594)	(902,929)	(1,069,123)	(158,964)	-	-	(19,091)	(51,170)	(241,385)	-	(262,513)	-	109,091	-	8,568	(2,783,110)	Claims paid and change in technical provisions
Changes in provisions for outstanding claims and benefits (gross)	(50,421)	(114,266)	(7,193)	(3,172)	-	-	(4,562)	10,178	132	-	169,304	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	6,972	4,445	32	1	-	-	945	6,362	-	-	9,929	-	-	-	504	29,189	Reinsurers' share in claims paid and change in technical provisions
Reinsurers' share in change in provisions	9,504	1,386	-	-	-	-	4,566	(5,496)	-	-	(9,960)	-	-	-	-	-	
Net claims	(229,539)	(1,011,364)	(1,076,284)	(162,135)	-	-	(18,143)	(40,126)	(241,253)	-	(93,240)	-	109,091	-	9,072	(2,753,921)	Net claims
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	(63,756)	(162,602)	-	-	-	-	132,234	-	94,124	-	-	-	-	(1,108)	Benefits and change in valuation of investment contracts
Bonuses and rebates for the insured net of reinsurance, including change in provisions	1,285	-	(299)	-	-	-	-	-	(70)	-	(916)	-	(1,108)	-	-	(1,108)	
Other technical charges - net of reinsurance	(11,101)	(29,945)	(3,527)	(165)	-	-	-	-	(136)	-	44,874	-	-	-	-	-	
Acquisition costs	(74,971)	(299,935)	(88,683)	(31,600)	-	(2,360)	(11,232)	(18,543)	(4,290)	-	2	-	-	-	2,873	(528,740)	Acquisition costs
Administrative expenses	(30,401)	(148,383)	(131,647)	(13,459)	-	(13,218)	(6,475)	(9,179)	(2,745)	-	(1)	4,839	-	(20,000)	2,479	(368,192)	Administrative expenses
Reinsurance commission and share in profits	4,317	(1,858)	233	-	-	-	-	-	-	-	(2,692)	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(103,250)	103,250	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(46)	-	-	-	(1,176)	(253,178)	(10,343)	-	(17,538)	86,380	(195,901)	Other operating expenses
Insurance result / Operating profit (loss)	65,877	284,550	455,366	49,354	1,746,318	21,341	6,331	3,592	7,375	6,808	43,025	14,997	1	(37,538)	(1,443,357)	1,224,040	Profit (loss) from operations
Other operating income	18,681	-	27,450	-	-	-	(759)	907	-	-	(46,279)	-	-	-	-	-	
Other operating expenses	(23,802)	-	(4,672)	-	-	-	414	(1,311)	-	-	29,371	-	-	-	-	-	
Financial costs	-	-	-	-	-	-	-	-	(15,140)	-	(26,118)	-	-	-	13,643	(27,615)	Financial costs
															159	Share of net profits (losses) of entities accounted for under equity method	
																1,196,584	Gross profit (loss)
																(236,666)	Tax
																959,918	Net profit (loss)

Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Condensed interim consolidated financial statements according to IFRS for the period of 6 months ended 30 June 2015
(in PLN thousand)

Income Statement for the period from 1 January 2014 to 30 June 2014	Corporate insurance (non-life insurance)	Mass-market insurance (non-life insurance)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic states	Investment contracts	Other activity	Presentation differences	Property and financial assets	Kontrakty inwestycyjne	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	Income Statement for the period from 1 January 2014 to 30 June 2014
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	962,588	3,330,572	3,265,802	643,260	-	-	77,099	158,572	277,958	-	-	-	-	-	-	8,437,893	Gross written premiums - external
Gross written premiums - cross-segment	1,518	(270)	-	-	-	-	-	-	-	-	-	-	-	-	(1,248)	-	Gross written premiums - cross-segment
Gross written premiums	964,106	3,330,302	3,265,802	643,260	-	-	77,099	158,572	277,958	-	-	-	-	(277,958)	(1,248)	8,437,893	
Reinsurers' share in gross written premium	(92,146)	992	(1,755)	(72)	-	-	(13,725)	(12,821)	-	-	-	-	-	-	1,454	(118,073)	Reinsurers' share in gross written premium
Net written premiums	871,960	3,331,294	3,264,047	643,188	-	-	63,374	145,751	277,958	-	-	-	-	(277,958)	206	8,319,820	Net written premium, including:
Changes in unearned premiums and unexpired risks reserves (gross)	(157,646)	(113,143)	448	1,696	-	-	(692)	(22,066)	25	-	5,449	-	(25)	-	(1,267)	(287,221)	Net change in unearned premiums provision
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	16,080	(17,489)	-	-	-	-	4,527	2,331	-	-	(5,449)	-	-	-	-	-	
Net earned premiums	730,394	3,200,662	3,264,495	644,884	-	-	67,209	126,016	277,983	-	-	-	(277,983)	-	(1,061)	8,032,599	Net earned premiums
Investment income, including:	66,823	274,471	371,257	182,775	1,842,399	5,425	15,413	8,514	25,366	17,575	140,915	-	7,685	-	(25,467)	123,133	Income from fees and commissions
Net investment result (external transactions)	66,823	274,471	371,257	182,775	359,030	5,425	15,413	8,514	25,366	17,575	(2,810,018)	-	-	-	-	-	
Net investment result (cross-segment transactions)	-	-	-	-	1,483,369	-	-	-	-	-	(1,483,369)	-	-	-	-	-	
											807,834	-	-	-	(1,758)	806,076	Net investment income (external transactions)
											1,483,369	-	-	-	(1,483,369)	-	Net investment revenues (cross-segment transactions)
											26,846	(1,417)	-	-	(250)	25,179	Net result on the realization and impairment losses of investments
											549,599	20,132	-	-	(30,522)	539,209	Net change in the fair value of assets and liabilities measured at fair value
Other technical income net of reinsurance	10,015	28,121	675	16	-	-	-	-	2	-	(38,829)	-	-	-	-	-	
Operating revenues of non-insurance companies	-	-	-	-	-	76,851	-	-	-	198,476	(275,327)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	494	-	-	-	2,453	317,318	(905)	(2)	-	(74,491)	244,867	Other operating revenue
Gross claims and benefits paid	(379,951)	(1,744,496)	(2,178,242)	(331,501)	-	-	(51,808)	(88,088)	(1,061,536)	-	65,372	-	276,325	-	15,547	(5,478,378)	Claims paid and change in technical provisions
Changes in provisions for outstanding claims and benefits (gross)	(81,805)	(150,397)	(11,912)	22,602	-	-	(2,527)	7,271	(1,272)	-	218,040	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	20,383	9,114	43	-	-	-	1,622	9,758	-	-	18,514	-	-	-	857	60,291	Reinsurers' share in claims paid and change in technical provisions
Reinsurer's share in change in provisions	25,625	(885)	-	-	-	-	3,205	(8,152)	-	-	(19,793)	-	-	-	-	-	
Net claims	(415,748)	(1,886,664)	(2,190,111)	(308,899)	-	-	(49,508)	(79,211)	(1,062,808)	-	282,133	-	276,325	-	16,404	(5,418,087)	Net claims
Changes in technical provision net of reinsurance, life insurance provisions, unit-linked technical provisions, risk equalization reserve	-	-	(161,141)	(342,446)	-	-	-	-	786,553	-	(282,966)	-	-	-	-	-	
											-	-	(6,025)	-	-	(6,025)	Benefits and change in valuation of investment contracts
Bonuses and rebates for the insured net of reinsurance, including change in provisions	1,010	-	(493)	-	-	-	-	-	(71)	-	(446)	-	-	-	-	-	
Other technical charges - net of reinsurance	(26,414)	(106,087)	(9,992)	(777)	-	-	-	-	(339)	-	143,609	-	-	-	-	-	
Acquisition costs	(148,926)	(582,785)	(174,922)	(62,882)	-	(3,337)	(24,187)	(35,483)	(10,393)	-	-	-	-	-	6,551	(1,036,364)	Acquisition costs
Administrative expenses	(57,370)	(272,801)	(259,480)	(25,814)	-	(50,394)	(13,406)	(15,702)	(5,185)	-	-	9,931	-	(20,000)	7,946	(702,275)	Administrative expenses
Reinsurance commission and share in profits	7,430	(1,349)	331	-	-	-	-	-	-	-	(6,412)	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(186,196)	186,196	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(93)	-	-	-	(2,542)	(436,401)	(16,272)	-	(31,477)	114,194	(372,591)	Other operating expenses
Insurance result / Operating profit (loss)	167,214	653,568	840,619	86,857	1,842,399	28,946	(4,479)	4,134	11,108	29,766	87,420	11,469	-	(51,477)	(1,471,823)	2,235,721	Profit (loss) from operations
Other operating income	39,673	-	29,343	-	-	-	12,008	2,687	-	-	(83,711)	-	-	-	-	-	
Other operating expenses	(38,569)	-	(7,541)	-	-	-	(3,552)	(3,384)	-	-	53,046	-	-	-	-	-	
Financial costs	-	-	-	-	-	-	-	-	-	(33,267)	(56,755)	-	-	-	30,209	(59,813)	Financial costs
															245	245	Share of net profits (losses) of entities accounted for under equity method
																2,176,153	Gross profit (loss)
																(455,792)	Tax
																1,720,361	Net profit (loss)

1 January – 30 June 2015 and as at 30 June 2015	Poland	Baltic states	Ukraine	Non-allocated (eliminated from consolidation and other)	Consolidated value
Gross written premiums – external	8,444,101	608,058	74,291	-	9,126,450
Gross written premiums – cross-segment	21,904	-	-	(21,904)	-
Revenue from commissions and fees	103,196	-	-	-	103,196
Net investment income	768,977	8,649	27,969	-	805,595
Net result on realization and impairment losses on investments	182,094	3,588	(2,740)	-	182,942
Net change in the fair value of assets and liabilities measured at fair value	63,958	4,370	891	-	69,219
Non-current assets other than financial instruments ¹⁾	1,424,565	344,687	3,184	(490)	1,771,946
Deferred tax assets	25,146	-	1,178	-	26,324
Assets	65,046,559	2,180,592	194,065	(1,341,482)	66,079,734

¹⁾ Intangible assets and property, plant and equipment.

31 December 2014	Poland	Baltic states	Ukraine	Non-allocated (eliminated from consolidation and other)	Consolidated value
Non-current assets other than financial instruments ¹⁾	1,425,655	441,425	3,887	(666)	1,870,301
Deferred tax assets	16,639	9,300	1,018	-	26,957
Assets	66,803,450	2,169,983	224,704	(1,625,376)	67,572,761

¹⁾ concerns the intangible assets and the components of property, plant and equipment

1 January – 30 June 2014 and as at 30 June 2014	Poland	Baltic states	Ukraine	Non-allocated (eliminated from consolidation and other)	Consolidated value
Gross written premiums – external	8,202,222	158,572	77,099	-	8,437,893
Gross written premiums – cross-segment	147	-	-	(147)	-
Revenue from commissions and fees	123,133	-	-	-	123,133
Net investment income	787,533	4,702	13,841	-	806,076
Net result on realization and impairment losses on investments	25,000	468	(289)	-	25,179
Net change in the fair value of assets and liabilities measured at fair value	534,004	3,344	1,861	-	539,209
Non-current assets other than financial instruments ¹⁾	1,261,031	141,211	3,996	(476)	1,405,762
Deferred tax assets	19,553	4,087	1,000	-	24,640
Assets	63,360,492	848,081	212,113	(598,905)	63,821,781

¹⁾ Intangible assets and property, plant and equipment.

12. Issues, redemption and repayment of debt and equity securities

During the period of 6 months ended on 30 June 2015, PZU did not perform any issuance, buyout, and repayment of debt and capital securities.

13. Breach or default of significant provisions of the loans or other borrowing arrangements

During the 6 months ended on 30 June 2015, there were no instances of outstanding credit or loan payments or violation of the credit or loan terms not subject to corrective measures before the end of the reporting period in either PZU or its subsidiaries.

14. Credit facility/loan collateral or guarantees given by PZU or its subsidiaries

During the 6 months ended on 30 June 2015, neither PZU nor its subsidiaries granted credit facility/loan collateral or guarantees – to one entity or a subsidiary of such an entity – if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

15. Dividends

Only the profit recognized in the separate financial statements of the parent entity, drawn up in accordance with PAS, is subject to distribution.

On 12 May 2015, the PZU Management Board decided to apply to the General Shareholders' Meeting of PZU to appropriate the net profit of PZU for the year concluded on 31 December 2014 in amount of PLN 2,636,733 thousand as follows:

- PLN 2,590,569 thousand or PLN 30.00 per share to the dividend payment;
- PLN 36,164 thousand to supplementary capital;
- PLN 10,000 thousand to the Social Benefits Fund.

The PZU Management Board decided to apply to the General Shareholders' Meeting of PZU to set the dividend date at 30 September 2015 and the dividend payment date at 21 October 2015.

The motion of the PZU Management Board complies with the dividend policy and recognizes PFSA recommendations concerning the dividend policy of insurance and reinsurance companies.

On 30 June 2015, the General Shareholders' Meeting of PZU passed an ordinance to appropriate the net profit of PZU for the year concluded on 31 December 2014 in compliance with the motion of the PZU Management Board.

16. Disputes

The entities in PZU Group are parties to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual liabilities. The typical administrative proceedings are those related to own real property. The proceedings and disputes are typical and repetitive and; usually, individually, they are not significant for PZU Group.

Most disputes the PZU Group entities are parties to pertain to two companies: PZU and PZU Życie. In addition, PZU and PZU Życie participate in the proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

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

During the 6 months ended on 30 June 2015 and by the date of submission of these interim statements, PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU.

As at 30 June 2015, the total subject of dispute value of all 77,323 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group entities was PLN 3,322,425 thousand. The amount includes PLN 2,808,530 thousand of liabilities and PLN 513,895 thousand of receivables of PZU Group entities which accounts for 25.31% and 4.63% of the equity of PZU calculated in line with PAS, respectively.

The estimations of provisions for individual cases recognize all information available at the signing of the consolidated financial statements, but they may change in the future.

16.1. Resolution of General Shareholders' Meeting of PZU regarding 2006 profit distribution

A petition of 30 July 2007 initiated an action of Manchester Securities Corporation ("MSC"), with the registered office in New York, against PZU regarding cancellation of the General Shareholders' Meeting of PZU's Resolution no. 8/2007 of 30 June 2007 regarding distribution of PZU profit for 2006 as non-compliant with good practices and acting to the detriment of the claimant, a shareholder of PZU.

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

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

In its decision of 22 January 2010, the District Court in Warsaw cancelled the above resolution. PZU has appealed to all possible instances, including a cassation appeal to the Supreme Court, which dismissed said appeal on 27 March 2013. The ruling is final and binding and is not subject to further appeals.

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

In relation to the ruling repealing resolution no. 8/2007 taking effect, on 30 May 2012 the General Shareholders' Meeting of PZU passed the resolution to distribute the profit for the 2006 financial year in a manner corresponding to the cancelled resolution no. 8/2007. Manchester Securities Corporation objected against the resolution of 30 May 2012, which was recorded in the minutes.

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

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in whole and the costs of the proceedings awarded from PZU to Manchester Securities Corporation. On 4 March 2014, PZU appealed against the judgment in whole. On 11 February 2015, the Appellate Court in Warsaw passed a judgment that changed the judgment of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgment of the Appellate Court is final. MSC lodged a cassation appeal regarding the entire decision of the Appellate Court of 9 June 2015. PZU responded to the cassation appeal and moved for rejection or alternatively dismissal of the complaint by the Supreme Court.

On 16 December 2014, MSC called PZU to pay PLN 264,865 thousand of compensation due to the cancellation of the resolution No 8/2007 of the General Shareholders Meeting of PZU of 30 June 2007 on the distribution of profit of PZU for 2006. PZU refused to fulfil the obligation.

According to the Management Board, MSC's claims are unfounded. Thus, as at 30 June 2015, no changes in the presentation of PZU equity were made that may result from cancellation of the resolution of the General Shareholders Meeting on the distribution of profit for 2006, including "Supplementary capital" and "Retained earnings". The funds appropriated to the Social Benefits Fund were not adjusted or provisions recognized against any potential additional claims resulting from cancellation of the above resolution.

16.1.1. Other requests for payment concerning the distribution of profit of PZU for 2006

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU refused to fulfill the obligation.

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

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

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

On 2 February 2015, the District Court of Warsaw delivered a copy of an application of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014. PZU rejected the conciliation at the hearing on 24 February 2015.

PZU is receiving other copies of application for a summons to a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. A part of the proceedings have already ended. PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

There are 6 suits filed against PZU (two of which have been combined) for payment of dividend or claims. PZU consistently responds to such requests demanding their cancellation in their entirety. At the two hearings on 24 April 2014 and on 24 June 2015, the Regional Court for Warszawa Śródmieście dismissed the suits in their entirety (the ruling of 24 April 2015 is final, the ruling of 24 June 2015 is not).

16.2. Proceedings conducted by the Office of Competition and Consumer Protection against PZU

16.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting in:

- including contractual provisions specified in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer

Protection ("CCCP") of 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final and was executed through the payment of PZU of the awarded financial penalty. On 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgment. On 24 July 2014, PZU received a response of the President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration. The hearing was set for 9 September 2015.

16.2.2. Fines imposed in 2011

16.2.2.1. Reimbursement of the costs of rental a replacement car

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

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

and demanded that the practices be discontinued.

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

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court. The hearing before the Supreme Court was set for 9 September 2015.

Regardless of the initiated legal procedures, PZU held a provision for the above fine, whose amount both as at 30 June 2015 and 31 December 2014 was PLN 11,287 thousand.

16.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic group accident insurance for children, youth and staff of educational institutions by dividing the market between the entities – the customers of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those customers. The Office demanded that the practices be discontinued.

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

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

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

On 22 October 2012, PZU received a response of the President of Office of Competition and Consumer Protection to its appeal. On 5 November 2012 PZU replied to the response. On 27 March 2015, the Court of Competition and Consumer Protection ruled to cancel the decision of the President of Office of Competition and Consumer Protection of 30 December 2011. On 21 May 2015, the President of the Office of Competition and Consumer Protection appealed against the decision. On 24 June 2015, PZU responded to the appeal of the President of the Office of Competition and Consumer Protection.

PZU held a provision for the above fine, whose amount both as at 30 June 2015 and 31 December 2014 was PLN 56,605 thousand.

16.3. Proceedings conducted by the Office of Competition and Consumer Protection against PZU Życie

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

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

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

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

As a result of further proceedings, in the judgment of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014 PZU Życie appealed against the judgment of the CCCP of 28 March 2014, appealing against the judgment in its entirety. The court sent a copy of the appeal to the defendant and other participants who submitted a response to the appeal, which was followed by an exchange of subsequent pleadings. The files were then transferred to the Appellate Court in Warsaw. On 2 July 2015, PZU Życie replied to the appeal response. The appeal hearing was set for 3 September 2015.

Regardless of the initiated appellation procedures, PZU Życie held a provision for the above fine, whose amount both as at 30 June 2015 and 31 December 2014 was PLN 50,384 thousand.

16.4. Dispute with CSC Computer Sciences Polska sp. z o.o.

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

On 31 May 2010, PZU Życie requested that the Court of Arbitration rule that the court temporarily refuses jurisdiction for some claims and dismissed the entire claims. PZU Życie also filed a counter claim against CSC, demanding payment of PLN 71,890 thousand as a return of the remuneration collected by CSC or as damages for undue performance of liabilities. On 31 August 2010, CSC motioned dismissal of the entire claim of PZU Życie indicating lack of evidence to consider it.

After the proceedings before the Arbitration Court at the Polish Chamber of Commerce, on 18 December 2012, the court issued a judgment ("Judgment of the Arbitration Court 108/10") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and discontinued the proceedings concerning the main complaint regarding the payment of EUR 8,437 thousand with statutory interest for the period from the claim date. Furthermore, the Arbitration Court dismissed the remaining part of the main suit and dismissed the countersuit of PZU Życie.

Due to the final and binding conclusion of the suit concerning the feasibility of Judgment 108/10, on 9 July 2015 PZU Życie paid the adjudged PLN 17,393 thousand to CSC under reserve.

16.5. Submission of PZU claims to the bankruptcy estate of PBG Capital Group companies

PZU concluded contracts of mandate regarding periodic insurance guarantees (contractual guarantees) with PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"). The registered offices of both companies are located in Wysogotowo near Poznań. PZU issued insurance guarantees on the basis of the aforementioned contracts. Should PZU perform on these guarantees, its customers were obliged to refund amounts paid to PZU.

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

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

- PBG granted sureties regarding PLN 33,747 thousand arising from guarantees issued for Hydrobudowa;
- Hydrobudowa granted sureties regarding PLN 67,249 thousand arising from guarantees issued for PBG.

(Following their verification by the judge-commissioner and the court appointed supervisor) PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of receivables. Both as at 30 June 2015 and as at 31 December 2014, the sureties amount to PLN 102,164 thousand and their reduction is due to the expiry of a part of guarantees to which no claims were reported. The creditor's meeting set for 29 April 2015, which was supposed to include the vote concerning the PBG arrangement proposals, was cancelled. At the creditor's meeting on 5 August 2015, PZU voted in favor of adopting the arrangement. Before specifying the final results of the voting, the judge-commissioner shall verify the validity of cast votes. The results of the voting on the arrangement will be announced at the meeting set for 25 August 2015.

16.6. Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999, PZU Życie granted a mortgage loan to Metro-Projekt sp. z o. o. ("Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value

mortgage on real property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

Metro-Projekt did not repay its loan, and in November 2002 it was declared bankrupt.

The proceedings resulting from the receiver of Universal SA filing for a separation of the real estate located at Al. Jerozolimskich 44 in Warsaw from the bankruptcy estate of Metro-Projekt began in 2004.

As a result of a settlement concluded in 2012, in exchange for resigning from claims for the bankruptcy estate of Universal, the bankruptcy estate of Metro-Projekt was to be charged with an additional amount of PLN 5,722 thousand to be transferred to the former.

After several more unsuccessful attempts to sell the enterprise, another announcement of the receiver was published on 25 August 2014. The bidding opened at PLN 80 million. The only bid in the amount of PLN 80 million was opened on 21 October 2014.

The receiver sold the enterprise for PLN 80 million on 18 December 2014.

As at 31 December 2014 the carrying amount of the receivables from Metro-Projekt was PLN 109,478 thousand. On 28 April 2015, the PZU Życie liability of PLN 109,478 thousand was covered in full.

17. Other information

17.1. Rating of PZU Group entities by credit rating agencies

PZU and PZU Życie are regularly rated by rating agencies. The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy as well as country financial situation. It also includes outlook, i.e. an assessment of the future position of the Company in the event of specific circumstances.

As at the release of this periodical report, the financial strength and local currency credit of PZU and PZU Życie were rated A (by S&P on 16 July 2009). This rating was subject to update at least once a year (the dates of recent updates are presented in the table below).

The long-term credit rating in the local currency as at the date of the report was A with a stable outlook, while the credit rating of Poland for long-term foreign currency debt is A- with a stable outlook.

In the announcement of 27 April 2015, the S&P agency confirmed PZU's rating position at the level of "A" with a stable outlook. This means that PZU's debt in foreign currency rating is currently higher than that of Poland.

The table below presents ratings assigned to PZU and PZU Życie by S&P together with previous ratings.

Company name	Rating and outlook	Date of granting / update	Previous rating and outlook	Date of granting / update
PZU				
Financial strength rating	A /stable/	27 April 2015	A /stable/	25 March 2014
Credit rating	A /stable/	27 April 2015	A /stable/	25 March 2014
PZU Życie				
Financial strength rating	A /stable/	27 April 2015	A /stable/	25 March 2014
Credit rating	A /stable/	27 April 2015	A /stable/	25 March 2014

17.2. Acquisition of shares of Alior Bank SA

Under preliminary share purchase agreement for the shares of Alior Bank SA ("Alior Bank") dated 30 May 2015, PZU will acquire 17,818,473 Alior Bank's shares from Alior Lux S.à.r.l & Co. S.C.A ("Seller 1") and 500 000 Alior Bank's shares from Alior Polska sp. z o.o. ("Seller 2"), i.e. in total j. 18,318,473 shares which constitutes approximately 25.25% of Alior Bank's share capital and total number of votes at Alior Bank's general shareholders' meeting.

Having fulfilled the conditions specified in the purchase agreement, the shares of Alior Bank will be acquired by PZU in three instalments:

- first – 6,744,900 shares from Seller 1 and 500,000 shares from Seller 2;
- second – 7,244,900 shares from Seller 1;
- third – 3,828,673 shares from Seller 1.

price per share shall amount to PLN 89.25, with the total value of PLN 1,634,924 thousand.

The transaction is determined by the following conditions precedent which simultaneously serve as the conditions precedent of individual instalments (the first three points refer only to the first instalment):

- lack of objection of the Polish Financial Supervision Authority ("PFSA") in relation to the purchase of the shares of Alior Bank by PZU;
- approval of the Office of Competition and Consumer Protection ("OCCP") or if the approval is considered obtained (on 6 August 2015, PZU learned that the conditions was fulfilled);
- approval from the Anti-Monopoly Office of ;
- no violation of declarations and statements placed by the contractual parties;
- no unauthorized benefits specified in the agreement, which are not covered by appropriate compensation;
- no considerable negative change specified in the agreement;
- no violation of liabilities over the transitional period between the agreement signing date and the date of the next instalment;
- Alior Bank's acquisition of a part of the enterprise of Seller 2 which includes the real property listed in points a) – d) of ordinance no. 27/2015 of the general shareholders' meeting of Alior Bank dated 25 May 2015.

17.3. Split of PZU shares

On 30 June 2015, the General Shareholders' Meeting adopted a resolution on the PZU's share split by reducing the nominal value of each PZU share from PLN 1 to PLN 0.10 and increasing the number of PZU shares of the share capital from 86,352,300 to 863,523,000. The distribution of shares will take place though the exchange of all the shares in a 1:10 ratio. The share split does not affect the share capital of PZU.

The split is planned to take place in November of 2015.

17.4. Employment restructuring process

On 18 December 2014, the Management Board of PZU decided to begin restructuring activities connected to the introduction of new IT systems and operation process automation.

On 8 April 2015, the Management Boards of PZU and PZU Życie announced their intention to carry out group redundancies, in accordance to the Act of 13 March 2003 on special principles of employment termination for reasons not related to employees (Journals of Laws of 2003, item 844, as amended) ("Act on special principles of employment termination").

On 10 April 2015, PZU, PZU Życie, and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in previous years.

Employment restructuring was conducted during the planned period (May–June 2015) and finally encompassed 269 people within PZU and PZU Życie, while the employment downsizing applied to 136 employees.

Similarly to all previous stages of the employment restructuring process (i.e. from 2010 to 2014), those employees who were laid off or refused to accept the proposed change of employment terms were offered more favorable terms of leaving the company than the ones provided for by the applicable regulations (Act laying down special principles applicable to termination of employment contracts). The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

Costs associated with benefits paid to released employees were recognized in the reserve for restructuring purposes included in the consolidated financial report for 2014. The remaining costs were included in the interim consolidated financial statements.

As at 30 June 2015, the provision for restructuring costs was PLN 4,971 thousand (as at 31 December 2014: PLN 9,354 thousand).

17.5. Related party transactions

17.5.1. Significant transactions concluded by PZU or its subsidiaries with the related parties on non-arm's length terms

During the 6 months ended on 30 June 2015, neither PZU nor its subsidiaries entered any related party transactions of individual or collective significance or concluded under conditions other than arm's length, with exception of the below transactions.

Under the agreement dated 23 March 2015, PZU granted to PZU Zdrowie an interest-free cash loan. The maximum loan amount is PLN 200,000 thousand and the repayment deadline is 31 December 2030. The first loan advance of PLN 90,000 thousand was launched on 24 March 2015. Since both companies are members of the Tax Capital Group, it is tax neutral.

Furthermore, on the basis of the framework agreement signed by said entities on 7 August 2013, PLN cash loans are granted between PZU and PZU Życie for a fixed term of 12 months or less. The total value of loans provided by each Party may not exceed PLN 1 billion. The objective of the aforementioned agreement is to provide PZU Group with a liquidity management tool. The loans do not fall under arm's length basis – the loaned amount is not subject to interest and the lender is entitled to a commission of PLN 100 for every concluded loan agreement – however, since both companies are members of the Tax Capital Group, the loans are tax neutral. During the period of 6 months ended 30 June 2015 such loans were not granted.

17.5.2. Balances and turnovers of transactions with related parties

Balances and turnovers of transactions between PZU Group and related parties	1 January – 30 June 2015 and as at 30 June 2015		1 January – 31 December 2014 and as at 31 December 2014		1 January – 30 June 2014 and as at 30 June 2014	
	Key management personnel of the main entities ¹⁾	Other related parties ²⁾	Key management personnel of the main entities ¹⁾	Other related parties ²⁾	Key management personnel of the main entities ¹⁾	Other related parties ²⁾
Gross written premium						
in non-life insurance	-	1,606	-	860	-	-
in life insurance (including investment contracts)	-	-	-	-	-	-
Other income	-	2	-	-	-	-
Expenses	-	11	-	18	-	-
including write-offs for receivables recognized in current period	-	-	-	-	-	-
Receivables	-	14	-	40	-	-
gross value	-	14	-	40	-	-
impairment losses	-	-	-	-	-	-
net value	-	14	-	40	-	-
Liabilities	-	-	-	11	-	-
Contingent assets	-	-	-	-	-	-
Contingent liabilities	-	-	-	-	-	-

¹⁾ High level management, data as per statements.

²⁾ Non-consolidated entities in liquidation, associates and joint ventures measured using the equity method.

17.5.3. Transactions with entities controlled by the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury.

Non-life insurance contracts, life insurance contracts and investment contracts constituted the major part of transactions with associates, joint-ventures and associates of the State Treasury. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Receivables from and liabilities to related parties due to insurance contracts are short-term.

PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to the fact of being under control, joint control or significant influence of the same government, as referred to in Par. 25 of IAS 24. However, as such information is useful, PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, joint-ventures, and associates of the State Treasury understood exclusively as commercial law companies and subsidiaries, joint-ventures, and associates of the State Treasury, the letters of which are published on the State Treasury Ministry's websites.

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

Entities controlled by, joint ventures of and associates of the State Treasury	1 April – 30 June 2015	1 January – 30 June 2015	1 April – 30 June 2014	1 January – 30 June 2014
Gross written premium at non-life insurance	14,610	20,286	38,757	48,038
- including written premium in transactions with Bank Powszechny Kasa Oszczędności BP SA	3,904	5,556	6,666	8,477
Gross written premium from life insurance	6,799	13,840	7,926	15,698
- including written premium and volumes of investment contracts in transactions with Bank Powszechny Kasa Oszczędności BP SA	6,799	13,840	7,926	15,698
Total	21,409	34,126	46,683	63,736

17.6. Inspection of PZU Życie by the Polish Financial Supervision Authority

The Polish Financial Supervision Authority conducted an inspection at PZU Życie between 12 August and 3 October 2014. The inspection covered the PZU Życie's operations and financial status in respect of:

- organization and management;
- bookkeeping;
- investment policy;
- technical provisions;
- fulfillment of benefits.

PZU Życie received the post-inspection report on 29 June 2015 and filed its reservations towards it on 13 July 2015. As at the date of release of these interim financial statements, PZU Życie has not received any post-inspection recommendations.

17.7. Inspection of PZU by the Polish Financial Supervision Authority

The Polish Financial Supervision Authority conducted an inspection at PZU in scope of insurance agent services between 17 April and 17 June 2015.

As at the date of release of this interim statement, PZU has not received the post-inspection report or any recommendations.

17.8. Situation in Ukraine

From 2014, the political and economic situation in Ukraine is unstable. This is related to the following factors affecting the Ukrainian insurance sector:

- high inflation rate and strong local currency (Ukrainian hryvnia) depreciation towards the dollar and the euro;
- collapsing internal demand;
- trouble in the banking sector (bankruptcy of Ukraine's fourth-largest bank, the Delta Bank – temporary administration was applied on 3 March 2015).

The external factors are disturbing the operations of the financial sector and make it difficult to plan long-term business. On the other hand, under such conditions, the clients have grown to appreciate the reliability of insurance companies, they are willing to accept higher prices, and insurance companies with foreign capital are perceived as more credible. By diversifying the sales channels and portfolio, PZU Ukraine and PZU Ukraine Life Insurance are more flexible towards market changes and are realizing the financial plans passed in 2014. Considering the hazards presented by the external environment, the PZU Management Board is cooperating with the management boards of PZU Ukraine and PZU Ukraine Life Insurance to monitor the situation in Ukraine. Scenarios of reaction to market changes and controlling mechanisms have been developed. PZU has no intention to withdraw from the Ukrainian market. As at the date of this interim report, the PZU Management Board assumes that PZU Ukraine and PZU Ukraine Life Insurance will continue their business activity in accordance with the agreed objectives. Nevertheless, the current economic instability in Ukraine may have a negative impact on the financial situation and results of PZU Ukraine and PZU Ukraine Life Insurance in the future, which cannot be credibly projected at this point. These interim statements reflect the PZU Management Board's current evaluation of the situation.

17.9. Sale of shares of PZU Lietuva

On 2 February 2015, an share purchase agreement of shares in PZU Lietuva was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of LTL 100 (EUR 28.96) each, representing a total of 99.879% of the share capital of PZU Lietuva.

The sale of shares is subject to the fulfillment of the following conditions precedent:

- the lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lietuva by the purchaser (the condition was met on 13 August 2015);
- approvals from the Latvian and Estonian anti-monopoly authorities or written statements that such approvals are not required (PZU received a statement that such approvals are not required on 25 May 2015 and 14 May 2015 respectively);
- approval from the Lithuanian Competition Council (PZU learned of the condition's fulfillment on 7 April 2015);
- completion of the process of separating assets and liabilities of PZU Lietuva related to the operations carried out by the branches of PZU Lietuva in Latvia and Estonia to PZU Group (the condition was fulfilled on 23 June 2015);
- approval of the Bank of Lithuania concerning the early repayment of the subordinated loan granted to PZU Lietuva by PZU (the approval in question was issued on 15 July 2015 and the loan was paid off on 16 July 2015);

- Approval from the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lietuva by the purchaser (PZU learned of the condition's fulfillment on 14 May 2015);
- waiver of the pre-emptive right by the non-controlling shareholder of PZU Lietuva (holding 0.121% of the share capital) in relation to the shares of PZU Lietuva in favor of PZU;
- consent of the Lithuanian Government Commission for the purchase of the shares in PZU Lietuva by the purchaser or a written confirmation that such consent is not required (PZU learned of the condition's fulfillment on 14 May 2015).

The sale of PZU Lietuva shares will be effected once the last of the conditions precedent has been met, i.e. waiver of the preemptive right by the non-controlling shareholder. The last conditions precedent should be fulfilled by 30 November 2015.

The payment for PZU Lietuva shares is EUR 54,000 thousand and it shall be adjusted by the difference between the estimated net asset value and the net asset reference amount as well as the four payments made over 6-month periods in amounts of 1.5% of capital surplus measured as the difference between the actual equity of PZU Lietuva established according to the requirements of the Bank of Lithuania and the required equity of PZU Lietuva established according to legal regulations and regulations binding PZU Lietuva.

17.10. Administrative proceedings conducted by the Office of Competition and Consumer Protection

On 30 January 2015, PZU Życie received a letter from the Office of Competition and Consumer Protection dated 26 January 2015 announcing the launch of administration proceedings concerning practices violating collective consumer interests. The proceedings are ongoing. As at the date of release of this interim statement, the President of the Office of Competition and Consumer Protection has not released a decision in the matter.

Signatures of members of the Management Board of PZU

Name

Position

Andrzej Klesyk

CEO of PZU

.....
(signature)

Przemysław Dąbrowski

Member of the Board

.....
(signature)

Rafał Grodzicki

Member of the Board

.....
(signature)

Dariusz Krzewina

Member of the Board

.....
(signature)

Tomasz Tarkowski

Member of the Board

.....
(signature)

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

Katarzyna Łubkowska

Director of Accounting
Department

.....
(signature)

Warsaw, 25 August 2015

**The Capital Group of
Powszechny Zakład Ubezpieczeń
Spółka Akcyjna**

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2014**

The opinion contains 3 pages
The supplementary report contains 15 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the financial year ended
31 December 2014

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (“the Group”), whose parent company is Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warsaw, al. Jana Pawła II 24 (“the Parent Company”), which comprise the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2014, the consolidated statement of financial position as at 31 December 2014, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended 31 December 2014 and additional information and notes comprising a summary of significant accounting policies and other explanatory information, hereinafter called ‘consolidated financial statements’.

Management’s and Supervisory Board’s Responsibility for the Consolidated Financial Statements

Management of the Parent Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities. Management of the Parent Company is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), Management of the Parent Company and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group’s activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying consolidated financial statements of the Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

The financial statements of the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements dated 11 March 2014.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the accompanying report on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the Attachment No. 6 of the Decree of the Minister Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original

.....
Marcin Dymek
Key Certified Auditor
Registration No. 9899

Signed on the Polish original

.....
Stacy Ligas
Limited Liability Partner
with power of attorney

Warsaw, 16 March 2015

**The Capital Group of
Powszechny Zakład Ubezpieczeń
Spółka Akcyjna**

**Supplementary report
on the audit of the
consolidated financial
statements
Financial Year ended
31 December 2014**

The supplementary report contains 15 pages
The supplementary report on the audit of the
consolidated financial statements
for the financial year ended
31 December 2014

Contents

1.	General	3
1.1	Identification of the Group	3
1.1.1	Name of the Group	3
1.1.2	Registered office of the Parent Company of the Group	3
1.1.3	Registration of the Parent Company in the register of entrepreneurs of the National Court Register	3
1.1.4	Management of the Parent Company	3
1.2	Information about companies comprising the Group	3
1.2.1	Companies included in the consolidated financial statements	3
1.2.2	Entities excluded from consolidation	4
1.3	Key Certified Auditor and Audit Firm Information	5
1.3.1	Key Certified Auditor information	5
1.3.2	Audit Firm information	5
1.4	Prior period consolidated financial statements	5
1.5	Audit scope and responsibilities	5
1.6	Information on audits of the financial statements of the consolidated companies	6
1.6.1	Parent Company	6
1.6.2	Other consolidated entities	7
2	Financial analysis of the Group	9
2.1	Summary analysis of the consolidated financial statements	9
2.1.1	Consolidated statement of profit or loss	9
2.1.2	Consolidated statement of other comprehensive income	10
2.1.3	Consolidated statement of financial position	11
2.2	Selected financial ratios	13
3	Detailed report	14
3.1	Accounting principles	14
3.2	Basis of preparation of the consolidated financial statements	14
3.3	Method of consolidation	14
3.4	Goodwill arising on consolidation	14
3.5	Consolidation of equity and calculation of non-controlling interest	14
3.6	Consolidation eliminations	15
3.7	Notes to the consolidated financial statements	15
3.8	Report of the Management Board of the Parent Company on the Group's activities	15

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('the Group').

1.1.2 Registered office of the Parent Company of the Group

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with registered office in Warsaw, Al. Jana Pawła II 24 ('the Parent Company').

1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court in Warsaw, XII Commercial Department of the National Court Register
Date:	30 April 2001
Registration number:	KRS 0000009831
Share capital as at the end of reporting period:	PLN 86,352 thousand

1.1.4 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2014, the Management Board of the Company was comprised of the following members:

• Andrzej Klesyk	– President of the Management Board
• Przemysław Dąbrowski	– Board Member
• Dariusz Krzewina	– Board Member
• Barbara Smalska	– Board Member
• Tomasz Tarkowski	– Board Member
• Ryszard Trepczyński	– Board Member

On 6 October 2014 Barbara Smalska resigned from the Management Board effective from 31 December 2014.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

Complete list of the consolidated subsidiaries have been disclosed in point 1.6 of this report and in the Note 2.2 of the additional information and notes to the consolidated financial statements.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2014, as a result of the Parent Company acquiring a controlling interest:

- Centrum Medyczne Medica sp. z o.o. – subject to consolidation in the period from 9 May 2014 to 31 December 2014,
- Sanatorium Uzdrowskowe “Krystynka” sp. z o.o – subject to consolidation in the period from 9 May to 31 December 2014,
- Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o. – subject to consolidation in the period from 12 May 2014 to 31 December 2014,
- PZU Finance AB (publ.) – subject to consolidation in the period from 2 June 2014 to 31 December 2014,
- AAS Balta – subject to consolidation in the period from 30 June 2014 to 31 December 2014,
- Omicron Bis SA – subject to consolidation in the period from 28 August 2014 to 31 December 2014,
- Link4 Towarzystwo ubezpieczeń SA – subject to consolidation in the period from 15 September 2014 to 31 December 2014,
- L4C sp. z o.o. – subject to consolidation in the period from 15 September 2014 to 31 December 2014,
- Lietuvos Draudimas AB – subject to consolidation in the period from 31 October 2014 to 31 December 2014,
- Arm property sp. z o.o. – subject to consolidation in the period from 26 November 2014 to 31 December 2014,
- Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. – subject to consolidation in the period from 1 December 2014 to 31 December 2014,
- Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. – subject to consolidation in the period from 1 December 2014 to 31 December 2014.

The following subsidiary was consolidated during the reporting period until the date control by the Parent Company ceased: PZU Energia Medycyna Ekologia – subject to consolidation in the period from 1 January 2014 to 31 March 2014.

1.2.2 Entities excluded from consolidation

As at 31 December 2014, the following subsidiary was not consolidated as a result of lack of controlling interest by the Parent Company: Syta Development sp. z o.o. w likwidacji

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname: Marcin Dymek
Registration number: 9899

1.3.2 Audit firm information

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. ("KPMG Audyt")
Address of registered office: ul. Chłodna 51, 00-867 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

KPMG Audyt is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The financial statements of the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those financial statements dated 11 March 2014.

The financial statements as at and for the year ended 31 December 2013 were approved at the General Meeting of the Parent Company on 17 June 2014.

The financial statements as at and for the year ended 31 December 2013 were submitted to the Registry Court on 25 June 2014.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting and Supervisory Board of the Parent Company and relates to the consolidated financial statements comprising: the consolidated statement of profit or loss and the consolidated statement of comprehensive income for the year ended 31 December 2014, the consolidated statement of financial position as at 31 December 2014, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year ended 31 December 2014 and additional information and notes comprising a summary of significant accounting policies and other explanatory information.

The Parent Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The consolidated financial statements were audited in accordance with the contract dated 26 June 2014, concluded on the basis of the resolution of the Supervisory Board dated 18 February 2014 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) (“the Accounting Act”), National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing.

We audited the consolidated financial statements at the Group entities during the period from October to November 2014 (interim audit) and from January to March 2015 (final audit).

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and with other applicable regulations and preparation of the report on the Group’s activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt.

The Key Certified Auditor and KPMG Audyt fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2014 were audited by KPMG Audyt, audit firm number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
1. Powszechny Zakład Ubezpieczeń na Życie SA	KPMG Audyt	31 December 2014	unmodified
2. Link 4 Towarzystwo Ubezpieczeń SA	KPMG Audyt	31 December 2014	audit not completed
3. Lietuvos Draudimas AB	KPMG Baltics UAB	31 December 2014	audit not completed
4. Apdrošināšanas Akciju Sabiedrība Balta AAS BALTA	KPMG Baltics SIA	31 December 2014	audit not completed
5. PrJSC IC PZU Ukraine	JSC KPMG Audit	31 December 2014	audit not completed
6. PrJSC IC PZU Ukraine Life Insurance	JSC KPMG Audit	31 December 2014	audit not completed
7. UAB DK PZU Lietuva	KPMG Baltics UAB	31 December 2014	audit not completed
8. UAB PZU Lietuva Gyvybes Draudimas	KPMG Baltics UAB	31 December 2014	audit not completed
9. Powszechne Towarzystwo Emerytalne PZU SA	KPMG Audyt	31 December 2014	unmodified
10. PZU Centrum Operacji SA	KPMG Audyt	31 December 2014	unmodified
11. Towarzystwo Funduszy Inwestycyjnych PZU SA	KPMG Audyt	31 December 2014	unmodified
12. PZU Pomoc SA	KPMG Audyt	31 December 2014	unmodified
13. PZU Finance AB	KPMG Sweden	31 December 2014	audit not completed
14. PZU Finanse Sp. z o.o.	MG Profit sp. z o.o.	31 December 2014	unmodified
15. Tower Inwestycje Sp. z o.o.	KPMG Audyt	31 December 2014	unmodified
16. Ogrodowa-Inwestycje Sp. z o.o.	KPMG Audyt	31 December 2014	unmodified
17. Armatura Kraków SA	KPMG Audyt	31 December 2014	audit not completed
18. Armatoora SA	KPMG Audyt	31 December 2014	audit not completed
19. Armaton SA	KPMG Audyt	31 December 2014	audit not completed
20. Arm Property sp. z o.o.	not audited	31 December 2014	n/a
21. Armadimp SA ¹	KPMG Audyt	31 December 2014	audit not completed ¹
22. Armagor SA ¹	KPMG Audyt	31 December 2014	audit not completed ¹
23. PZU Zdrowie SA (dawniej Ipsilon Bis SA)	MG Profit sp. z o.o.	31 December 2014	audit not completed
24. Centrum Medyczne Medica Sp. z o.o.	EKSPERT-FIN Biegli Rewidenci Sp. z o.o.	31 December 2014	unmodified
25. Specjalistyczna Przychodnia Przemysłowa Prof-med sp. z o.o.	EKSPERT-FIN Biegli Rewidenci Sp. z o.o.	31 December 2014	unmodified
26. Sanatorium Uzdrowskie Krystynka Sp. z o.o.	EKSPERT-FIN Biegli Rewidenci Sp. z o.o.	31 December 2014	unmodified
27. Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. („Elvita”)	EKSPERT-FIN Biegli Rewidenci Sp. z o.o.	31 December 2014	unmodified
28. Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. („Proelmed”)	Katarzyna Walewska Biuro Rachunkowe Biegłego Rewidenta	31 December 2014	unmodified
29. Ipsilon Sp. z o.o.	not audited	31 December 2014	n/a
30. PZU Asset Management S.A.	KPMG Audyt	31 December 2014	unmodified
31. Międzyzakładowe Pracownice Towarzystwo Emerytalne PZU SA w likwidacji	not audited	31 December 2014	n/a
32. Omicron SA	MG Profit sp. z o.o.	31 December 2014	audit not completed
33. Omicron Bis SA	MG Profit sp. z o.o.	31 December 2014	audit not completed
34. LLC SOS Services Ukraine	not audited	31 December 2014	n/a
35. L4C sp. z o.o.	not audited	31 December 2014	n/a
36. PZU SFIO Universum	KPMG Audyt	31 December 2014	unmodified
37. PZU FIZ Dynamiczny	KPMG Audyt	31 December 2014	unmodified
38. PZU FIZ Sektora Nieruchomości	KPMG Audyt	31 December 2014	unmodified
39. PZU FIZ Sektora Nieruchomości 2	KPMG Audyt	31 December 2014	unmodified
40. FIZ Aktywów Niepublicznych BIS1	KPMG Audyt	31 December 2014	unmodified



The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
The supplementary report on the audit of the consolidated financial statements
for the financial year ended 31 December 2014
TRANSLATION

41. FIZ Aktywów Niepublicznych BIS2	KPMG Audyt	31 December 2014	unmodified
42. PZU Dłużny Rynków Wschodzących (Globalnej Alokacji)	KPMG Audyt	31 December 2014	unmodified
43. PZU Akcji Rynków Wschodzących	KPMG Audyt	31 December 2014	unmodified
44. PZU Akcji Spółek Dywidendowych	KPMG Audyt	31 December 2014	unmodified
45. FIZ_FORTE	KPMG Audyt	31 December 2014	unmodified
46. PZU FIZ Sektora Nieruchomości 3 in liquidation ²	not audited	31 December 2014	n/a
47. PZU FIZ Aktywów Niepublicznych RE Income in liquidation ²	not audited	31 December 2014	n/a
48. PZU FIO Gotówkowy	KPMG Audyt	31 December 2014	unmodified

¹On 31 December 2014, business combination of Armatoora SA (the acquiring entity) and Armadimp SA (the acquired entity) and business combination of Armatura Kraków SA (the acquiring entity) and Armagor SA (the acquired entity) was registered.

²The Capital Group od PZU also includes subsidiaries, having the character of special purpose vehicles investing in particular properties, which are in the portfolios of the following funds: PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3 in liquidation, PZU FIZ Aktywów Niepublicznych RE Income in liquidation, the number of which for particular funds amounted to: 39, 13, 7, 6. Out of the total number of those companies 22 special purpose vehicles with a property in its portfolio are audited by KPMG Audyt, and until the date of this report these audit have not been completed.

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of profit or loss

	1.01.2014 - 31.12.2014 PLN thousand	% gross premium written	1.01.2013 - 31.12.2013 PLN thousand	% gross premium written
Gross written premiums	16,884,639	0.0%	16,480,003	0.0%
Reinsurer's share in the written premiums	(349,912)	2.1%	(257,037)	1.6%
Net written premium	16,534,727	97.9%	16,222,966	98.4%
Change in net unearned premium reserve	(105,357)	0.6%	25,803	0.2%
Net earned premiums	16,429,370	97.3%	16,248,769	98.6%
Revenue from commissions and fees	350,764	2.1%	299,169	1.8%
Net investment income	1,793,838	10.6%	1,866,650	11.3%
Net result on realization and impairment losses on investments	427,147	2.5%	42,547	0.3%
Net change in the fair value of assets and liabilities measured at fair value	512,533	3.0%	605,358	3.7%
Other operating income	537,633	3.2%	485,221	2.9%
Claims, benefits and change in technical provisions	(11,733,228)	69.5%	(11,195,277)	67.9%
Reinsurer's share in claims, benefits and change in technical provisions	191,520	1.1%	34,053	0.2%
Net claims and benefits	(11,541,708)	68.4%	(11,161,224)	67.7%
Change in measurement of investment contracts	(14,031)	0.1%	(77,715)	0.5%
Acquisition costs	(2,147,024)	12.7%	(2,015,938)	12.2%
Administrative expenses	(1,527,699)	9.0%	(1,406,480)	8.5%
Other operating expenses	(907,740)	5.4%	(705,599)	4.3%
Operating profit	3,913,083	23.2%	4,180,758	25.4%
Borrowing costs	(219,865)	1.3%	(61,664)	0.4%
Share in net profit (loss) of entities measured using the equity method	(1,525)	0.0%	1,404	0.0%
Gross profit	3,691,693	21.9%	4,120,498	25.0%
Income tax				
- current portion	(673,506)	4.0%	(855,776)	5.2%
- deferred portion	(50,560)	0.3%	60,233	0.4%
Net profit, including:	2,967,627	17.6%	3,294,955	20.0%
- profit attributable to equity holders of the parent entity	2,967,731	17.6%	3,293,496	20.0%
- profit (loss) attributable to non-controlling interest	(104)	0.0%	1,459	0.0%
Net profit on continued operations attributable to equity holders of the parent entity	2,967,731	17.6%	3,293,496	20.0%
Net profit (loss) from discontinued operations	-	-	-	0.0%
Basic and diluted weighted average number of ordinary shares in issue	86,351,949	0.0%	86,351,949	0.0%
Basic and diluted profit (loss) per one ordinary share (in PLN)	34.37	0.0%	38.14	0.0%

2.1.2 Consolidated statement of other comprehensive income

	1.01.2014 - 31.12.2014 PLN thousand	% net profit	1.01.2013 - 31.12.2013 PLN thousand	% net profit
Net profit	2,967,627		3,294,955	
Other comprehensive income	17,193	0.6%	(104,482)	3.2%
Amounts subject to subsequent transfer to statement of profit or loss:	10,580	0.4%	(119,829)	3.6%
Measurement of available-for-sale financial instruments	8,475	0.3%	(120,101)	3.6%
Exchange differences from translation	2,287	0.1%	292	0.0%
Other comprehensive income of entities measured using the equity method	(182)	0.0%	(20)	0.0%
Amounts not subject to subsequent transfer to statement of profit or loss:	6,613	0.2%	15,347	0.5%
Property reclassified from property, plant and equipment to investment property	13,504	0.5%	14,445	0.4%
Actuarial gains and losses from remeasurements of defined benefit liabilities	(6,891)	0.2%	902	0.0%
Total net comprehensive income	2,984,820	100.6%	3,190,473	96.8%
Comprehensive income attributable to equity holders of the parent entity	2,984,916	100.6%	3,189,009	96.8%
Comprehensive income attributable to non-controlling interest	(96)	0.0%	1,464	0.0%

2.1.3 Consolidated statement of financial position

ASSETS	31 Dec 2014 PLN thousand	% assets	31 Dec 2013 PLN thousand	% assets
Intangible assets	868,692	1.3%	308,726	0.5%
Goodwill	785,663	1.2%	8,519	0.0%
Property, plant and equipment	1,001,609	1.5%	927,281	1.5%
Investment property	2,236,062	3.3%	1,474,770	2.3%
Companies measured using the equity method	66,311	0.1%	48,595	0.1%
Financial assets	56,759,976	84.0%	55,085,728	87.7%
Financial instruments held to maturity	19,983,689	29.6%	18,859,902	30.0%
Financial instruments available for sale	2,985,322	4.4%	1,920,112	3.1%
Financial instruments measured at fair value through profit or loss	19,096,484	28.3%	19,904,176	31.7%
Loans and receivables	14,694,481	21.7%	14,401,538	22.9%
Receivables, including insurance receivables	3,068,813	4.5%	2,671,964	4.3%
Reinsurer's share in technical provisions	753,115	1.1%	526,605	0.8%
Estimated subrogations and salvages	127,262	0.2%	129,950	0.2%
Deferred tax assets	26,957	0.0%	16,949	0.0%
Current income tax receivables	368	0.0%	34,895	0.1%
Deferred acquisition costs	712,066	1.1%	609,819	1.0%
Other assets	235,250	0.3%	195,449	0.3%
Cash and cash equivalents	324,007	0.5%	569,157	0.9%
Assets held for sale	606,610	0.9%	178,897	0.3%
Total assets	67,572,761	100.0%	62,787,304	100.0%



The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
The supplementary report on the audit of the consolidated financial statements
for the financial year ended 31 December 2014
TRANSLATION

EQUITY AND LIABILITIES	31 Dec 2014	%	31 Dec 2013	%
	PLN thousand	assets	PLN thousand	assets
Equity				
Issued share capital and other equity attributable to the equity holders of the parent entity	13,166,336	19.5%	13,111,290	20.9%
Share capital	86,352	0.1%	86,352	0.1%
Other capitals	9,885,791	14.6%	9,061,351	14.4%
Treasury shares	(110)	0.0%	(110)	0.0%
Supplementary capital	9,678,921	14.3%	8,855,999	14.1%
Revaluation reserve	248,543	0.4%	242,297	0.4%
Other reserve capitals	66	0.0%	-	0.0%
Actuarial gains and losses from remeasurements of defined benefit plans	(6,179)	0.0%	902	0.0%
Exchange differences from translation	(35,450)	-0.1%	(37,737)	-0.1%
Unappropriated profit	3,194,193	4.7%	3,963,587	6.3%
Retained earnings	226,462	0.3%	2,397,137	3.8%
Net profit	2,967,731	4.4%	3,293,496	5.2%
Appropriations of net profit during the financial year	-	0.0%	(1,727,046)	-2.8%
Non-controlling interest	1,292	0.0%	16,341	0.0%
Total equity	13,167,628	19.5%	13,127,631	20.9%
Liabilities				
Technical provisions	40,166,885	59.4%	37,324,416	59.4%
Unearned premiums and unexpired risk reserves	5,250,103	7.8%	4,540,011	7.2%
Provision for life insurance	16,281,625	24.1%	16,048,191	25.6%
Provisions for unpaid claims and benefits	7,770,351	11.5%	6,586,781	10.5%
Provision for capitalized annuity benefits	5,997,595	8.9%	5,761,332	9.2%
Provisions for bonuses and discounts for the insured	2,291	0.0%	2,893	0.0%
Other technical provisions	439,364	0.7%	477,987	0.8%
Unit-linked technical provisions	4,425,556	6.5%	3,907,221	6.2%
Investment contracts	1,108,107	1.6%	2,121,037	3.4%
- with guaranteed and fixed terms and conditions	520,840	0.8%	1,250,492	2.0%
- unit-linked	587,267	0.9%	870,545	1.4%
Provisions for employee benefits	120,070	0.2%	123,380	0.2%
Other provisions	191,206	0.3%	192,906	0.3%
Deferred tax liabilities	398,433	0.6%	255,399	0.4%
Current income tax liabilities	53,770	0.1%	53,372	0.1%
Derivatives	625,844	0.9%	237,749	0.4%
Liabilities arising from issue of debt securities	2,127,527	3.1%	-	0.0%
Other liabilities	9,361,277	13.9%	9,351,414	14.9%
Liabilities directly associated with assets held for sale	252,014	0.4%	-	0.0%
Total liabilities	54,405,133	80.5%	49,659,673	79.1%
Total equity and liabilities	67,572,761	100.0%	62,787,304	100.0%

2.2 Selected financial ratios

	2014	2013	2012
Sales profitability ratio	17.6%	20.0%	20.0%
= Net profit (loss) / Gross written premium			
Profitability ratio of investment activity	4.9%	4.5%	7.9%
= Investment income / Average investments' value			
Gross loss ratio	72.5%	67.9%	76.2%
= (Gross claims and benefits paid + change in gross provision for outstanding claims) / Gross earned premium			
Net loss ratio	70.3%	68.7%	76.3%
= (Net claims and benefits paid + change in net provision for outstanding claims) / Net earned premium			
Premium retention ratio	97.9%	98.4%	98.5%
= Net written premium / Gross written premium			
Claims retention ratio	98.4%	99.7%	98.8%
= Net claims and benefits paid / Gross claims and benefits paid			
Acquisition cost ratio	13.4%	12.4%	12.4%
= Acquisition costs ¹ / Net earned premium			
Administration cost ratio	9.0%	8.5%	8.9%
= Administration costs / Net earned premium			
Net operating expenses ratio	22.4%	21.1%	21.5%
= General insurance costs ² / Net earned premium			

¹ Acquisition costs include accrued amounts without the change in deferred acquisition costs.

² General insurance costs include acquisition costs (with change in deferred acquisition costs) and administration costs.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in Note 5 of the additional information and notes to the consolidated financial statements to the extent required by IFRS.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Group were prepared in accordance with IFRS and other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

3.3 Method of consolidation

The method of consolidation is described in Note 5.2 of additional information and notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in Notes 2.4, 5.4, 5.6, 6.2.2 and 29 of additional information and notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The relevant data for consolidation eliminations was based on the accounting records of subsidiaries consolidated on the full consolidation basis, which have been subject to an audit or other revision procedures, and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in additional information and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and Attachment No. 6 to the Decree of the Minister of Finance dated 28 December 2009 on specific accounting principles in insurance and reinsurance companies (Official Journal from 2009, No. 226, item 1825) and the information is consistent with the financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original

.....
Marcin Dymek
Key Certified Auditor
Registration No. 9899

Signed on the Polish original

.....
Stacy Ligas
Limited Liability Partner
with power of attorney

Warsaw, 16 March 2015

The Capital Group Of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

Consolidated Financial Statements
For The Financial Year Ended 31 December 2014
With Auditor's Opinion



This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of the translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Table of contents

Consolidated statement of profit or loss	4
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Statement of changes in consolidated equity	8
Consolidated statement of cash flows	10
Additional information and notes	12
1. Introduction	12
2. Structure of the Capital Group	13
3. The shareholding structure	30
4. Composition of the Management Board, Supervisory Board and Directors in the PZU Group	31
5. Summary of significant accounting policies	32
6. Key estimates and judgments	63
7. Segment reporting	69
8. Risk management	76
9. Capital management	101
10. Fair value	104
11. Gross written premiums	112
12. Revenue from commissions and fees	113
13. Net investment income	113
14. Net result on realization and impairment losses on investments	114
15. Net change in the fair value of assets and liabilities measured at fair value	114
16. Other operating income	115
17. Claims, benefits and change in technical provisions	115
18. Change in measurement of investment contracts	116
19. Acquisition costs	117
20. Administrative expenses	117
21. Employee expenses	117
22. Other operating expenses	118
23. Borrowing costs	118
24. Exchange differences	118
25. Earnings per share	119
26. Income tax	119
27. Income tax presented in other comprehensive income	120
28. Intangible assets	121
29. Goodwill	123
30. Tangible assets	125
31. Investment property	127
32. Entities measured using the equity method	128
33. Financial assets	131

34. Receivables, including insurance receivables	143
35. Reinsurers' share in technical provisions	145
36. Impairment of financial assets and receivables	146
37. Estimated subrogations and salvages	150
38. Deferred tax assets	151
39. Current income tax receivables	152
40. Deferred acquisition costs	152
41. Other assets	153
42. Cash and cash equivalents	153
43. Assets held for sale	154
44. Issued share capital and other equity attributable to the equity holders of the parent entity	154
45. Technical provisions	156
46. Investment contracts	160
47. Provisions for employee benefits	161
48. Other provisions	163
49. Deferred tax liabilities	166
50. Current income tax liabilities	168
51. Liabilities arising from the issue of own debt instruments	168
52. Other liabilities	169
53. Notes to other inflows and outflows from operating activities	170
54. Assets recognised as collateral of receivables, liabilities and contingent liabilities	170
55. Contingent assets and liabilities	171
56. Litigation claims	171
57. Related party transactions	178
58. Employment	181
59. Other information	182

Consolidated statement of profit or loss

Consolidated statement of profit or loss	Note	1 January – 31 December 2014	1 January – 31 December 2013 (restated)
Gross written premiums	11	16,884,639	16,480,003
Reinsurer's share in written premiums		(349,912)	(257,037)
Net written premium		16,534,727	16,222,966
Change in net unearned premiums reserve		(105,357)	25,803
Net earned premiums		16,429,370	16,248,769
Revenue from commissions and fees	12	350,764	299,169
Net investment income	13	1,793,838	1,866,650
Net result on realization and impairment losses on investments	14	427,147	42,547
Net change in the fair value of assets and liabilities measured at fair value	15	512,533	605,358
Other operating income	16	537,633	485,221
Claims, benefits and change in technical provisions		(11,733,228)	(11,195,277)
Reinsurers' share in claims, benefits and change in technical provisions		191,520	34,053
Net claims and benefits	17	(11,541,708)	(11,161,224)
Change in measurement of investment contracts	18	(14,031)	(77,715)
Acquisition costs	19	(2,147,024)	(2,015,938)
Administrative expenses	20	(1,527,699)	(1,406,480)
Other operating expenses	22	(907,740)	(705,599)
Operating profit		3,913,083	4,180,758
Borrowing costs	23	(219,865)	(61,664)
Share in net profit of entities measured using the equity method		(1,525)	1,404
Gross profit		3,691,693	4,120,498
Income tax	26		
- current portion		(673,506)	(885,776)
- deferred portion		(50,560)	60,233
Net profit, including:		2,967,627	3,294,955
- profit attributable to equity holders of the parent entity		2,967,731	3,293,496
- profit (loss) attributable to non-controlling interest		(104)	1,459
Net profit on continued operations attributable to equity holders of the parent entity		2,967,731	3,293,496
Net profit (loss) from discontinued operations		-	-
Basic and diluted weighted average number of ordinary shares in issue	25	86,351,949	86,351,949
Basic and diluted profit (loss) per one ordinary share (in PLN)	25	34.37	38.14

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income	Note	1 January – 31 December 2014	1 January – 31 December 2013 (restated)
Net profit		2,967,627	3,294,955
Other comprehensive income	27	17,193	(104,482)
Amounts subject to subsequent transfer to statement of profit or loss		10,580	(119,829)
Measurement of available-for-sale financial instruments		8,475	(120,101)
Exchange differences from translation		2,287	292
Other comprehensive income of entities measured using the equity method		(182)	(20)
Amounts not subject to subsequent transfer to statement of profit or loss		6,613	15,347
Property reclassified from property, plant and equipment to investment property		13,504	14,445
Actuarial gains and losses from remeasurements of defined benefit liabilities		(6,891)	902
Total net comprehensive income		2,984,820	3,190,473
- comprehensive income attributable to equity holders of the parent entity		2,984,916	3,189,009
- comprehensive income attributable to non-controlling interest		(96)	1,464

Consolidated statement of financial position

Assets	Note	31 December 2014	31 December 2013 (restated)	1 January 2013 (restated)
Intangible assets	28	868,692	308,726	183,238
Goodwill	29	785,663	8,519	8,474
Property, plant and equipment	30	1,001,609	927,281	992,317
Investment property	31	2,236,062	1,474,770	564,404
Entities measured using the equity method	32	66,311	48,595	-
Financial assets		56,759,976	55,085,728	50,389,065
Financial instruments held to maturity	33.1, 36	19,983,689	18,859,902	21,117,559
Financial instruments available for sale	33.2, 36	2,985,322	1,920,112	3,824,409
Financial instruments measured at fair value through profit or loss	33.3, 36	19,096,484	19,904,176	15,694,482
Loans and receivables	33.4, 36	14,694,481	14,401,538	9,752,615
Receivables, including insurance receivables	34, 36	3,068,813	2,671,964	1,840,873
Reinsurers' share in technical provisions	35, 36	753,115	526,605	749,334
Estimated subrogations and salvages	37	127,262	129,950	121,632
Deferred tax assets	38	26,957	16,949	13,963
Current income tax receivables	39	368	34,895	80,646
Deferred acquisition costs	40	712,066	609,819	574,489
Other assets	41	235,250	195,449	178,646
Cash and cash equivalents	42	324,007	569,157	262,063
Assets held for sale	43	606,610	178,897	46,962
Total assets		67,572,761	62,787,304	56,006,106

Consolidated statement of financial position (cont.)

Equity and Liabilities	Note	31 December 2014	31 December 2013 (restated)	1 January 2013 (restated)
Equity				
Issued share capital and other equity attributable to the equity holders of the parent entity				
Share capital	44.1	86,352	86,352	86,352
Other reserves		9,885,791	9,061,351	9,105,375
Treasury shares		(110)	(110)	-
Supplementary capital	44.2	9,678,921	8,855,999	8,780,212
Revaluation reserve	44.3	248,543	242,297	363,167
Other reserve capital		66	-	-
Actuarial gains and losses from remeasurements of defined benefit liabilities		(6,179)	902	-
Exchange differences from translation	44.4	(35,450)	(37,737)	(38,004)
Unappropriated result		3,194,193	3,963,587	4,998,404
Retained earnings		226,462	2,397,137	4,998,404
Net profit		2,967,731	3,293,496	-
Appropriations of net profit during the financial year		-	(1,727,046)	-
Non-controlling interest		1,292	16,341	79,138
Total equity		13,167,628	13,127,631	14,269,269
Liabilities				
Technical provisions	45	40,166,885	37,324,416	35,400,778
Unearned premiums and unexpired risk reserves		5,250,103	4,540,011	4,537,167
Provision for life insurance		16,281,625	16,048,191	15,675,243
Provisions for unpaid claims and benefits		7,770,351	6,586,781	5,878,445
Provision for capitalized annuity benefits		5,997,595	5,761,332	5,660,281
Provisions for bonuses and discounts for the insured		2,291	2,893	4,227
Other technical provisions		439,364	477,987	531,617
Unit-linked technical provisions		4,425,556	3,907,221	3,113,798
Investment contracts	46	1,108,107	2,121,037	2,299,147
- with guaranteed and fixed terms and conditions		520,840	1,250,492	1,297,224
- unit-linked		587,267	870,545	1,001,923
Provisions for employee benefits	47	120,070	123,380	107,307
Other provisions	48	191,206	192,906	267,456
Deferred tax liabilities	49	398,433	255,399	357,557
Current income tax liabilities	50	53,770	53,372	21,658
Derivatives	8.6.2	625,844	237,749	130,147
Liabilities arising from issue of debt instruments	51	2,127,527	-	-
Other liabilities	52	9,361,277	9,351,414	3,152,787
Liabilities directly associated with assets held for sale	43	252,014	-	-
Total liabilities		54,405,133	49,659,673	41,736,837
Total equity and liabilities		67,572,761	62,787,304	56,006,106

Statement of changes in consolidated equity

Statement of changes in consolidated equity	Share capital	Capitals and reserves attributable to equity holders of the parent entity								Total	Non-controlling interest	Total equity
		Other reserves						Unappropriated result				
		Treasure shares	Supplementary capital	Revaluation reserve	Other reserve capital	Actuarial profits and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit			
Note	44.1		44.2	44.3			44.4					
Balance as at 1 January 2014	86,352	(110)	8,855,999	242,297	-	902	(37,737)	3,963,587	-	13,111,290	16,341	13,127,631
Measurement of available-for-sale financial instruments	-	-	-	8,475	-	-	-	-	-	8,475	-	8,475
Other comprehensive income of entities measured using the equity method	-	-	-	-	-	(190)	8	-	-	(182)	-	(182)
Exchange differences from translation	-	-	-	-	-	-	2,279	-	-	2,279	8	2,287
Actuarial gains and losses from remeasurements of defined benefit liabilities	-	-	-	-	-	(6,891)	-	-	-	(6,891)	-	(6,891)
Property reclassified from property, plant and equipment to investment property	-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Total other net comprehensive income	-	-	-	21,979	-	(7,081)	2,287	-	-	17,185	8	17,193
Net profit/(loss)	-	-	-	-	-	-	-	-	2,967,731	2,967,731	(104)	2,967,627
Total comprehensive income	-	-	-	21,979	-	(7,081)	2,287	-	2,967,731	2,984,916	(96)	2,984,820
Other changes, including:	-	-	822,922	(15,733)	66	-	-	(3,737,125)	-	(2,929,870)	(14,953)	(2,944,823)
Profit appropriation	-	-	800,257	-	66	-	-	(3,736,288)	-	(2,935,965)	-	(2,935,965)
Increase in capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	138	138
Buyback of shares in Armatura Kraków SA	-	-	6,095	-	-	-	-	-	-	6,095	(15,983)	(9,888)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	892	892
Sale of revalued property	-	-	16,570	(15,733)	-	-	-	(837)	-	-	-	-
Balance as at 31 December 2014	86,352	(110)	9,678,921	248,543	66	(6,179)	(35,450)	226,462	2,967,731	13,166,336	1 292	13,167,628

Statement of changes in consolidated equity (cont.)

Statement of changes in consolidated equity <i>(restated)</i>	Share capital	Capitals and reserves attributable to equity holders of the parent entity								Non-controlling interest	Total equity	
		Other reserves					Unappropriated result					Total
		Treasure shares	Supplementary capital	Revaluation reserve	Actuarial profits and losses from remeasurements of defined benefit liabilities	Exchange differences from translation	Retained earnings	Net profit	Appropriation of net profit during the financial year (negative value)			
Note	44.1		44.2	44.3		44.4						
Balance as at 1 January 2013	86,352	-	8,780,212	363,242	-	(38,004)	4,998,329	-	-	14,190,131	79,138	14,269,269
Changes in accounting standards	-	-	-	(75)	-	-	75	-	-	-	-	-
Balance as at 1 January 2013, after restatements	86,352	-	8,780,212	363,167	-	(38,004)	4,998,404	-	-	14,190,131	79,138	14,269,269
Measurement of available-for-sale financial instruments	-	-	-	(120,101)	-	-	-	-	-	(120,101)	-	(120,101)
Other comprehensive income of companies measured using the equity method	-	-	-	-	-	(20)	-	-	-	(20)	-	(20)
Exchange differences from translation	-	-	-	-	-	287	-	-	-	287	5	292
Actuarial gains and losses from remeasurements of defined benefit liabilities	-	-	-	-	902	-	-	-	-	902	-	902
Property reclassified from property, plant and equipment to investment property	-	-	-	14,445	-	-	-	-	-	14,445	-	14,445
Total other net comprehensive income	-	-	-	(105,656)	902	267	-	-	-	(104,487)	5	(104,482)
Net profit	-	-	-	-	-	-	-	3,293,496	-	3,293,496	1,459	3,294,955
Total comprehensive income	-	-	-	(105,656)	902	267	-	3,293,496	-	3,189,009	1,464	3,190,473
Other changes, including:	-	(110)	75,787	(15,214)	-	-	(2,601,267)	-	(1,727,046)	(4,267,850)	(64,261)	(4,332,111)
Profit appropriation	-	-	34,231	-	-	-	(2,599,579)	-	(1,727,046)	(4,292,394)	-	(4,292,394)
Increase in capital of PZU Lietuva	-	-	-	-	-	-	-	-	-	-	30	30
Buyback of shares in Armatura Kraków SA	-	-	24,568	-	-	-	-	-	-	24,568	(64,474)	(39,906)
Sale of revalued property	-	-	16,988	(15,214)	-	-	(1,772)	-	-	2	-	2
Change in the scope of consolidation	-	(110)	-	-	-	-	84	-	-	(26)	183	157
Balance as at 31 December 2013	86,352	(110)	8,855,999	242,297	902	(37,737)	2,397,137	3,293,496	(1,727,046)	13,111,290	16,341	13,127,631

Consolidated statement of cash flows

Consolidated statement of cash flows	Note	1 January – 31 December 2014	1 January – 31 December 2013 (restated)
Cash flows from operating activities			
Inflows		20,817,079	20,215,965
- inflows from insurance premiums		16,813,033	16,381,109
- inflows from investment contracts		374,467	1,097,951
- inflows from reinsurance commissions and share in reinsurers' profits		5,801	69,069
- inflows from reinsurers' share in claims		57,799	281,363
- inflows from claims representative services		185,909	229,562
- inflows from sale of units by investment fund		1,309,017	908,616
- other inflows from operating activities	53	2,071,053	1,248,295
Outflows		(19,041,866)	(17,269,971)
- reinsurance premiums		(281,562)	(242,809)
- commissions paid and profit sharing due to reinsurance inwards		(6,665)	(1,685)
- claims and benefits paid		(8,913,766)	(8,354,637)
- benefits paid from investment contracts		(1,389,107)	(1,334,843)
- acquisition outflows		(1,792,914)	(1,673,032)
- administrative outflows		(2,043,079)	(2,075,101)
- interest payments		(367)	(415)
- income tax payments		(643,411)	(863,601)
- outflows from claims representative services		(463,856)	(474,690)
- outflows from purchase of units by investment fund		(574,396)	(515,878)
- other operating outflows	53	(2,932,743)	(1,733,280)
Net cash flows from operating activities		1,775,213	2,945,994
Cash flows from investment activities			
Inflows		656,131,136	662,801,378
- disposal of investment property		46,372	20,982
- inflows from investment property		161,875	134,991
- disposal of intangible assets and property, plant and equipment		11,456	12,177
- disposal of shares		5,684,627	8,205,820
- redemption of debt instruments		59,499,048	114,078,782
- inflows from buy sell-back transactions		322,415,856	366,309,659
- withdrawal of term deposits at credit institutions		230,591,875	152,486,255
- inflows from other investments		33,292,748	18,883,940
- interest received		4,273,948	2,167,415
- dividends received		85,347	127,489
- cash acquired on business combination transactions		45,341	-
- cash inflows due to changes in the consolidation scope		-	355,464
- other inflows from investments		22,643	18,404

Consolidated statement of cash flows (cont.)

Consolidated statement of cash flows	Note	1 January – 31 December 2014	1 January – 31 December 2013 (restated)
Outflows		(657,879,173)	(665,414,979)
- acquisition of investment property		(674,638)	(391,751)
- outflows for maintenance of investment property		(152,702)	(87,860)
- acquisition of intangible assets and property, plant and equipment		(257,336)	(225,114)
- acquisition of shares		(6,309,465)	(9,634,941)
- acquisition of shares in subsidiaries	2.4.5	(1,573,516)	-
- decrease in cash balance due to changes in the consolidation scope	2.4.1	(16,108)	-
- acquisition of debt instruments		(60,179,445)	(114,022,255)
- outflows from buy sell-back transactions		(322,391,282)	(367,791,576)
- acquisition of term deposits at credit institutions		(229,791,689)	(155,299,282)
- acquisition of other investments		(36,528,980)	(17,951,679)
- other investments outflows		(4,012)	(10,521)
Net cash flow from investment activities		(1,748,037)	(2,613,601)
Cash flows from financing activities			
Inflows		368,232,652	106,079,401
- inflows from loans		10,823	89,889
- inflows due to issuance of debt instruments		2,015,447	-
- inflows from <i>sell buy-back</i> transactions		366,206,382	105,989,512
Outflows		(368,542,449)	(106,098,984)
- dividends paid to equity holders of the parent entity	44.1.1.1	(1,468,133)	(4,166,166)
- repayment of loans		(39,815)	(209,125)
- outflows from <i>sell buy-back</i> transactions		(367,019,479)	(101,708,734)
- interest from loans		(14,718)	(14,959)
- other financial outflows		(304)	-
Net cash flow from financing activities		(309,797)	(19,583)
Total net cash flows		(282,621)	312,810
Cash and cash equivalents at the beginning of the financial year		569,157	262,063
Change in cash due to exchange differences		37,471	(5,716)
Cash and cash equivalents at the end of the financial year, including:	42	324,007	569,157
- not available for use		31,081	110,819

Additional information and notes

1. Introduction

Compliance statement

These consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (henceforth: the consolidated financial statements and PZU Group, respectively) have been prepared in accordance with International Financial Reporting Standards ("IFRS") published and effective as at 31 December 2014 and endorsed by the European Commission.

Entities of PZU Group maintain their accounting records in accordance with local GAAP, while these consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Financial year

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2014 to 31 December 2014.

Financial Statements approval

These consolidated financial statements were signed and authorised for issue by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent entity) on 16 March 2015 and shall be subject to approval of the Annual General Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in PLN '000.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that the PZU Group's entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing these consolidated financial statements, no facts and circumstances indicate a risk to the PZU Group entities' ability to operate as a going concern during 12 months after the balance sheet date due to the intended or forced discontinuation, with the exception of companies in liquidation that did not conduct operating activities as at the balance sheet date, whose liquidation can be completed.

Discontinued operations

In 2014, the entities in PZU Group did not discontinue any significant type of operations.

2. Structure of the Capital Group

2.1 PZU

The PZU Group's parent entity is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24. PZU is entered to the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

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

2.2 PZU Group entities

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n.a.	n.a.	n.a.	n.a.	n.a.	Non-life insurance. http://www.pzu.pl/
2	Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie")	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.pl/grupa-pzu/pzu-zycie
3	Link4 Towarzystwo Ubezpieczeń SA ("Link4") ¹⁾	Warsaw	15.09.2014	100.00%	n.a.	100.00%	n.a.	Non-life insurance. http://www.link4.pl/
4	Lietuvos Draudimas AB ²⁾	Vilnius (Lithuania)	31.10.2014	99.98%	n.a.	99.98%	n.a.	Non-life insurance. http://www.ld.lt/
5	Apdrošināšanas Akciju Sabiedrība Balta ("AAS Balta") ³⁾	Riga (Latvia)	30.06.2014	99.99%	n.a.	99.99%	n.a.	Non-life insurance. http://www.balta.lv/
6	PrJSC IC PZU Ukraine ("PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Non-life insurance. http://www.pzu.com.ua/
7	PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance. http://www.pzu.com.ua/
8	UAB DK PZU Lietuva ("PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.88%	99.76%	99.88%	99.76%	Non-life insurance. https://www.pzu.lt/
9	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance. https://www.pzu.lt/
10	Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU")	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Management of pension funds. http://www.pzu.pl/grupa-pzu/pte-pzu
11	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activities related to insurance and pension funds.

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								
12	Towarzystwo Funduszy Inwestycyjnych PZU SA ("TFI PZU")	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Establishment, representation and management of investment funds. http://www.pzu.pl/grupa-pzu/tfi-pzu
13	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services. http://www.pzu.pl/grupa-pzu/pzu-pomoc
14	PZU Finance AB (publ)	Stockholm (Sweden)	02.06.2014	100.00%	n.a.	100.00%	n.a.	Financial services.
15	PZU Finanse Sp. z o.o.	Warsaw	08.11.2013	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
16	Tower Inwestycje Sp. z o.o. ("Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services excluding insurance and pension funds.
17	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Acquiring, operating, renting and selling of real property. http://www.ogrodowainwestycje.pl/
18	Armatura Kraków SA ⁴⁾	Cracow	07.10.1999	100.00%	92.75%	100.00%	92.75%	Distribution of products of Armatura Group, administration and management of the Armatura Group. http://www.grupa-armatura.pl/
19	Armatoora SA ⁴⁾	Nisko	10.12.2008	100.00%	92.75%	100.00%	92.75%	Production and distribution of radiators and sanitary fixtures and fittings
20	Armaton SA ⁴⁾	Cracow	10.02.2009	100.00%	92.75%	100.00%	92.75%	Use of free funds, development investments.
21	Arm Property sp. z o.o. ⁵⁾	Cracow	26.11.2014	100.00%	n.a.	100.00%	n.a.	Purchase and sales of property.
22	Armadimp SA ^{4) 6)}	Cracow	20.07.2012	n.a.	92.75%	n.a.	92.75%	Manufacturing of ceramic sanitary fixtures.
23	Armagor SA ^{4) 7)}	Cracow	06.09.2009	n.a.	92.75%	n.a.	92.75%	Manufacturing of bathroom (water and gas) and central heating fittings.

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								
24	PZU Zdrowie SA (previously Ipsilon Bis SA)	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	Health care services. http://www.pzu.pl/pzu-zdrowie
25	Centrum Medyczne Medica sp. z o.o. ("CM Medica")	Płock	09.05.2014	100.00%	n.a.	100.00%	n.a.	Health care services. http://cmmedica.pl/
26	Specjalistyczna Przychodnia Przemysłowa Prof-Med sp. z o.o. ("Prof-Med")	Włocławek	12.05.2014	96.45%	n.a.	96.45%	n.a.	Health care services. http://cmprofmed.pl/
27	Sanatorium Uzdrowskie "Krystynka" sp. z o.o. ("SU Krystynka")	Ciechocinek	09.05.2014	98.58%	n.a.	98.58%	n.a.	Hospital, rehabilitation and spa therapy services. http://www.sanatoriumkrystynka.pl/
28	Przedsiębiorstwo Świadczeń Zdrowotnych i Promocji Zdrowia ELVITA – Jaworzno III sp. z o.o. ("Elvita")	Jaworzno	01.12.2014	98.82%	n.a.	98.82%	n.a.	Health care services. http://www.elvita.pl/
29	Przedsiębiorstwo Usług Medycznych PROELMED sp. z o.o. ("Proelmed")	Łaziska Górne	01.12.2014	57.00%	n.a.	57.00%	n.a.	Health care services. http://www.proelmed.pl/
30	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Business assistance services and health care services.
31	PZU Asset Management SA ("PZU AM")	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of instruments portfolios for the account of third parties. http://www.pzu.pl/grupa-pzu/tfi-pzu/pzu-asset-managment
32	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA in liquidation ("MPTE PZU SA")	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
33	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct business operations.
34	Omicron Bis SA	Warsaw	28.08.2014	100.00%	n.a.	100.00%	n.a.	The Company does not conduct business operations.
35	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services.

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Consolidated subsidiaries (cont.)								The Company does not conduct business operations. Investment of funds collected from the participants of the fund. As above. As above. As above. As above. As above. As above. As above. As above. As above. As above. As above. As above. As above. As above.
36	L4C sp. z o.o.	Warsaw	15.09.2014	100.00%	n.a.	100.00%	n.a.	
37	PZU SFIO Universum	Warsaw	15.12.2009	n.a.	n.a.	n.a.	n.a.	
38	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n.a.	n.a.	n.a.	n.a.	
39	PZU FIZ Sektora Nieruchomości ⁹⁾	Warsaw	01.07.2008	n.a.	n.a.	n.a.	n.a.	
40	PZU FIZ Sektora Nieruchomości 2 ⁹⁾	Warsaw	21.11.2011	n.a.	n.a.	n.a.	n.a.	
41	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n.a.	n.a.	n.a.	n.a.	
42	PZU FIZ Aktywów Niepublicznych BIS 2 („PZU FIZ AN BIS 2”)	Warsaw	19.11.2012	n.a.	n.a.	n.a.	n.a.	
43	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	
44	PZU Akcji Rynków Wschodzących	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	
45	PZU Akcji Spółek Dywidendowych	Warsaw	20.11.2006	n.a.	n.a.	n.a.	n.a.	
46	PZU FIZ Forte	Warsaw	27.12.2012	n.a.	n.a.	n.a.	n.a.	
47	PZU FIZ Sektora Nieruchomości 3 in liquidation ^{9) 10)}	Warsaw	24.02.2012	n.a.	n.a.	n.a.	n.a.	
48	PZU FIZ Aktywów Niepublicznych RE Income in liquidation ^{9) 11)}	Warsaw	08.11.2011	n.a.	n.a.	n.a.	n.a.	
49	PZU FIO Gotówkowy	Warsaw	01.07.2005	n.a.	n.a.	n.a.	n.a.	
Joint ventures								
50	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	50.00%	50.00%	50.00%	

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

No.	Name of the company	Registered office	Date of acquisition of control/ significant influence	% of share capital/ equity directly or indirectly held by PZU		% of voting rights held directly or indirectly by PZU		Business operations
				31 December 2014	31 December 2013	31 December 2014	31 December 2013	
Associates								
51	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services.
52	EMC Instytut Medyczny SA ¹²⁾	Wrocław	18.06.2013	28.58%	29.87%	25.41%	25.31%	Health protection, R&D in medical sciences and pharmacy.

¹⁾ Information about the acquisition of Link4 is presented in Note 2.4.5.2.

²⁾ Information about the acquisition of Lietuvos Draudimas AB is presented in Note 2.4.5.3.

³⁾ Information about the acquisition of AAS Balta is presented in Note 2.4.5.1.

⁴⁾ Information about changing the involvement in Armatura Kraków SA is presented in Note 2.4.3.

⁵⁾ Information about the establishment of Arm Property Sp. z o.o. is presented in Note 2.4.6.

⁶⁾ On 31 December 2014, business combination of Armatoora SA (the acquiring entity) and Armadimp SA (the acquired entity) was registered. Additional information about is presented in Note 2.4.4.

⁷⁾ On 31 December 2014, business combination of Armatura Kraków SA (the acquiring entity) and Armagor SA (the acquired entity) was registered. Additional information about is presented in Note 2.4.4.

⁸⁾ On 16 October 2014, the Extraordinary General Meeting of Shareholders of MPTE PZU SA adopted a decision about the commencement of liquidation process of the company in connection with the unification of employee pension programmes in PZU Group and prior to the take-over of pension the programmes by investment funds managed by TFI PZU.

⁹⁾ As at 31 December 2014 the funds PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3 in liquidation, PZU FIZ Aktywów Niepublicznych RE Income in liquidation conducted investment operations through special purpose vehicles which invested in particular properties, the number of which for particular funds amounted to: 39, 13, 7, 6 (31 December 2013: 37, 8, 9, 6).

¹⁰⁾ The net assets of PZU FIZ Sektora Nieruchomości 3 in liquidation amounted to PLN 589 thousand as at 31 December 2014.

¹¹⁾ The net assets of PZU FIZ Aktywów Niepublicznych RE Income in liquidation amounted to PLN 2,262 thousand as at 31 December 2014.

¹²⁾ Information about changing the involvement in EMC Instytut Medyczny SA is presented in Note 2.4.2.

But for the companies listed in the table, as at 31 December 2014, PZU Group owned 100% of shares in Syta Development sp. z o.o. in liquidation that is controlled by the official receiver independent from PZU Group and, therefore, the company was not subject to consolidation. The carrying amount of these shares in the consolidated statement of financial position of PZU Group amounted to 0.

2.3 Non-controlling interest

In PZU Group there are no subsidiaries for which non-controlling interest would be material to PZU Group. The table below presents the subsidiaries with non-controlling interest:

Name of the entity	31 December 2014	31 December 2013
Proelmed	43.00%	n.a.
Prof-Med	3.55%	n.a.
SU Krystynka	1.42%	n.a.
Elvita	1.18%	n.a.
UAB PZU Lietuva Gyvybes Draudimas	0.66%	0.66%
PZU Lietuva	0.12%	0.24%
Lietuvos Draudimas AB	0.02%	n.a.
AAS Balta	0.01%	n.a.
Armatura Kraków SA	0.00%	7.25%
Armatoora SA	0.00%	7.25%
Armator SA	0.00%	7.25%
Armagor SA	0.00%	7.25%
Armadimp SA	0.00%	7.25%

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

2.4.1. Changes in the scope of consolidation of investment funds

Information about the application of IFRS 10 from 1 January 2014 are presented in Note 5.1.2.1.

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

Due to the fact that PZU Group lost control over a sub-fund PZU Energia Medycyna Ekologia, the consolidation was ceased from 1 April 2014. It resulted in a reduction of cash balance of PZU Group by PLN 16,108 thousand (in "decrease in cash inflows due to changes in the scope of consolidation" line in the consolidated cash flow statement. After ceasing the consolidation of the investment fund, the participation units are recognised in consolidated financial statements instead of the assets and liabilities of the investment fund.

2.4.2. Acquisition of shares in EMC Instytut Medyczny SA

On 23 December 2013, PZU FIZ AN BIS 2 entered into a contract providing for the acquisition of 948,370 newly issued shares in EMC Instytut Medyczny SA ("EMC") with the nominal value of PLN 4.00 per share and the issue price of PLN 19.50 per share. The total purchase price for the new shares amounted to PLN 18,493 thousand.

On 14 March 2014 the capital increase of EMC was registered, as a result of the issuance of 3,692,310 shares with a nominal value of PLN 4.00 per share and the issue price of PLN 19.50 per share. In accordance with the above mentioned final contract, PZU FIZ AN BIS 2 acquired 948,370 shares (constituting 25.685% of new issue). As a result of the capital increase, PZU FIZ AN BIS 2 has a total of 3,435,638 shares representing 28.58% of the share capital, which entitles it to 25.41% of votes at the General Meeting of Shareholders of EMC.

2.4.3. Increase of the capital share in Armatura Kraków SA

As at 31 December 2013, PZU FIZ AN BIS 2 had a total of 75,125,538 shares representing 92.75% of the share capital of Armatura Kraków SA and 92.75% of votes at the General Meeting of Shareholders.

As a result of shares squeeze-out, on 23 January 2014 PZU FIZ AN BIS 2 acquired 5,517,888 shares in Armatura Kraków SA. As a result of this transaction, PZU FIZ AN BIS 2 held the total of 80,643,426 shares representing 99.56% of the share capital of Armatura Kraków SA and 99.56% of votes at the General Meeting of Shareholders.

Through transactions settled on 3 March 2014 and 14 March 2014, PZU FIZ AN BIS 2 purchased 298,399 and 58,175 shares, respectively. As a result of these transactions, PZU FIZ AN BIS 2 had a total of 81,000,000 shares representing 100% of the share capital of Armatura Kraków SA, which entitled it to 100% of votes at the General Meeting of Shareholders.

On 9 January 2014, a request concerning the granting of authorization to restore shares of Armatura Kraków SA to a document form, i.e. the abolition of their dematerialization, was submitted to the Polish Financial Supervision Authority ("PFSA"). The PFSA agreed to dematerialize the shares on 18 February 2014. Pursuant to this decision, as at 10 March Armatura Kraków SA ceased to be subject to the obligations arising from the Act of 29 July 2005 on Public offering, conditions governing the introduction of financial instruments to organized trading, and public companies (Journal of Laws of 2013, 1382).

2.4.4. Combinations of entities under common control

On 21 November 2014, the General Meeting of Shareholders of Armatoora SA adopted a decision on the legal merger of Armatoora SA (the acquirer) and Armadimp SA (the acquiree). The sole shareholder of both companies was Armatura Kraków SA. The acquisition took place by transferring all assets of the acquiree to the acquirer in exchange for shares in the acquirer issued to the shareholder of the acquiree (Armatura Kraków SA).

On 28 November 2014 the General Meeting of Shareholders of Armatura Kraków SA adopted a decision on the legal merger of Armatura Kraków SA (the acquirer) with Armagor SA (the acquiree), whose sole shareholder was Armatura Kraków SA. The acquisition took place by transferring all the assets of the acquiree to the acquirer.

Both mergers were registered in the National Court Register on 31 December 2014.

Given the nature of the transactions (combinations of entities under common control) they had no impact on the consolidated financial statements.

2.4.5. Business combinations

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

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

Acquisition of insurance companies (AAS Balta, Link4, Lietuvos Draudimas AB as well as the Estonian branch of Codan Forsikring A/S) is part of the development strategy pursued by PZU Group, with international expansion and strengthening the position of PZU in Poland at its core. The goodwill recognised in the consolidated financial statements is an outcome of the planned achievement of value added resulting from synergy in the area of operations, IT solutions, and offer for Clients. A strong position that the acquired companies hold on the local markets is another argument that makes up the goodwill recognised. Moreover, in the case of Link4, as a result of using two brands in Poland, it is planned to attract new Clients and upsale the existing ones.

Acquisition of entities rendering health care services (CM Medica, Prof-Med, SU Krystynka, Elvita, Proelmed) is connected to the development of the PZU Group's activity in the field of health insurance.

2.4.5.1. Acquisition of shares of AAS Balta

On the basis of the share purchase agreement signed on 17 April 2014, PZU acquired from Royal & Sun Insurance plc, limited liability company incorporated in England and Wales with registered office in West Sussex, United Kingdom ("RSA"), 4,651,825 ordinary shares in the company AAS Balta that represent 99.995% of share capital of AAS Balta and 99.995% of votes at the General Meeting of Shareholders of AAS Balta ("AAS Balta Shares") with a nominal value of 1.00 LVL each.

The acquisition of the shares of AAS Balta was conditional upon the fulfilment of the following conditions precedent:

- obtaining the decision of the Financial and Capital Markets Commission of the Republic of Latvia regarding the acquisition of AAS Balta's shares in accordance with the relevant provisions of the Latvian law (including the no objection statement);
- obtaining the approval of European Commission's anti-trust commission or a Latvian anti-trust authority (depending on which one of the bodies would be appropriate in this case);
- obtaining the approval of the Ukrainian anti-trust authority.

Closing of the acquisition of AAS Balta and obtaining control took place on 30 June 2014 and since that day AAS Balta has been consolidated. The payment for the shares of AAS Balta made on the date of closing the transaction amounted to PLN 49,172 thousand (in accordance with the NBP's (National Bank of Poland) exchange rate from the day preceding the date of the transaction – PLN 204,202 thousand).

On 19 November 2014, the final settlement of the transaction was prepared. As a result, the purchase price of shares in AAS Balta was reduced by EUR 812 thousand. The final purchase price amounted to EUR 48,360 thousand (PLN 200,776 thousand).

Purchase price allocation for AAS Balta

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

Fair value of the acquired assets as at the acquisition date	Provisional settlement (in thousands EUR)	Adjustment	Final settlement (in thousands EUR)
Intangible assets	2,914	-	2,914
Property, plant and equipment	2,923	-	2,923
Financial assets	35,309	-	35,309
Receivables	10,429	-	10,429
Reinsurers' share in technical provisions	6,973	-	6,973
Deferred tax assets	982	-	982
Other assets	4,520	-	4,520
New intangible assets identified during the acquisition, including:	30,094	-	30,094
- trademark	8,600	-	8,600
- customer relations	14,193	-	14,193
- broker relations	1,107	-	1,107
- present value of future profits	6,194	-	6,194
Total assets	94,144	-	94,144
Technical provisions	46,270	-	46,270
Liabilities	8,488	-	8,488
Non-controlling interest	2	-	2
Share in fair value of the acquired net assets	39,384	-	39,384
Fair value of consideration transferred – in cash	49,172	(812)	48,360
Calculated goodwill	9,788	(812)	8,976

The goodwill will not be subject to tax deduction.

2.4.5.2. Acquisition of shares of Link4

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

The acquisition of the shares of Link4 was conditional upon the fulfilment of the following conditions precedent:

- approval of PFSA;
- obtaining the approval of European Commission's anti-trust commission or the Polish Office for Competition and Consumer Protection (depending on which one of the bodies would be appropriate in this case), including the no objection statement;
- approval of the PFSA for the repayment of the subordinate loan agreement between InTouch Insurance Group B.V. and Link4 as at 4 March 2009 with further amendments;
- obtaining the approval of the Ukrainian anti-trust authority.

Closing of the acquisition of Link4 and obtaining control took place on 15 September 2014 and since that day Link4 has been consolidated. The payment for the shares of Link4 made on the date of closing the transaction amounted to EUR 93,886 thousand (in accordance with the NBP's exchange rate from the day preceding the date of the transaction – PLN 393,917 thousand). The ultimate purchase price will be determined following the final settlement prepared by PZU and approved by RSA.

As at 31 December 2014, no final settlement of the transaction has been prepared (no final acquisition price has been set). Therefore, the below purchase price allocation for Link4 is of a provisional nature.

Provisional purchase price allocation for Link4

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

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

Fair value of the acquired assets as at the acquisition date	Provisional settlement (in thousands PLN)
Intangible assets	8,552
Property, plant and equipment	10,698
Financial assets	476,439
Receivables	65,354
Reinsurers' share in technical provisions	28,961
Other assets	26,634
New intangible assets identified during the acquisition, including:	117,266
- trademark	50,000
- present value of future profits	67,266
Total assets	733,904
Technical provisions	493,973
Liabilities	82,827
Share in fair value of the acquired net assets	157,104
Fair value of consideration transferred – in cash	393,917
Calculated goodwill	236,813

The goodwill will not be subject to tax deduction.

2.4.5.3. Acquisition of shares of Lietuvos Draudimas AB

Pursuant to the share purchase agreement signed on 17 April 2014, Lietuvos Draudimas AB PZU acquired from RSA 805,432 ordinary registered shares in the company Lietuvos Draudimas AB that represent 99.977% of share capital of

Lietuvos Draudimas AB ("Lietuvos Draudimas AB Shares") and 99.977% of votes at the General Meeting of Shareholders of Lietuvos Draudimas AB with a nominal value of LTL 50.00 each.

The acquisition of the shares of Lietuvos Draudimas AB was conditional upon the fulfilment of the following conditions precedent:

- obtaining the decision of the Bank of Lithuania in accordance with the relevant provisions of the Lithuanian law (including the no objection statement);
- obtaining the approval of European Commission's anti-trust commission or a Lithuanian anti-trust authority (depending on which authority would be appropriate in this case); the anti-trust approval should be unconditional or contain terms acceptable to PZU; on 9 October 2014, PZU received information about granting the approval in question. The approval was issued on the condition that PZU sells its business related to motor own damage insurance and residential insurance to a third party entity within a specified period. The business intended for sale includes the rights and obligations arising from PZU Lietuva's insurance: motor own damage and household insurance as at the date of the decision, as well as tangible assets and contracts concluded by PZU Lietuva in connection with the aforementioned types of insurance;
- obtaining the approval of the Ukrainian anti-trust authority.

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

As at 31 December 2014, no final settlement of the transaction has been prepared. Therefore, the below purchase price allocation for Lietuvos Draudimas AB is of a provisional nature.

Provisional purchase price allocation for Lietuvos Draudimas AB

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

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

The goodwill will not be subject to tax deduction.

2.4.5.4. Acquisition of shares of the Estonian branch of Codan Forsikring A/S and the agreement on the transfer of insurance portfolio

Pursuant to the agreement signed on 17 April 2014 by and between Codan Forsikring A/S, a company registered in Denmark with its registered office in Frederikberg ("Codan Denmark") acting as a seller, and PZU Lietuva acting through its UAB DB PZI Lietuva Eesti Filiaal branch registered in the Republic of Estonia acting as a buyer, and PZU acting as a guarantor for the buyer ("Codan Sales Agreement") PZU Lietuva purchased from Codan Denmark an insurance business run by Codan Denmark through its branch registered in Estonia ("Branch of Codan").

Closing of the acquisition transaction of the Branch of Codan and obtaining control took place on 31 October 2014. The payment for the Branch of Codan made at the date of transaction closing amounted to EUR 21,409 thousand. The ultimate purchase price will be determined following the final settlement prepared by PZU Lietuva and approved by Codan Denmark.

In addition to the Codan Sales Agreement, PZU Lietuva and Codan Denmark also signed the Portfolio Transfer Agreement – Transfer of the Estonian Insurance Portfolio by Codan Denmark. Pursuant to the said agreement, PZU Lietuva acquired from Codan Denmark the portfolio of all the insurance contracts concluded or accepted by the Branch of Codan as at 31 October 2014.

As at 31 December 2014, no final settlement of the transaction has been drafted (no final acquisition price has been set). Therefore, the below purchase price allocation for the Branch of Codan is of a provisional nature.

Provisional purchase price allocation for the Branch of Codan

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

Fair value of the acquired assets at the time of the acquisition of control	Provisional settlement (in thousands EUR)
Intangible assets	1,843
Property, plant and equipment	114
Receivables	10,526
Other assets	1,926
New intangible assets identified during the acquisition, including:	7,400
- present value of future profits	3,500
- broker relations	2,900
- customer relations	1,000
Total assets	21,809
Technical provisions	22,796
Liabilities	3,957
Share in fair value of the acquired net assets	(4,944)
Fair value of consideration transferred – in cash	21,409
Calculated goodwill	26,353

2.4.5.5. Acquisition of shares in health care companies

CM Medica

On 8 April 2014 an agreement was signed on the sale of shares of Orlen Medica sp. z o.o. (operating under the name of Centrum Medyczne Medica sp. z o.o. since 4 June 2014), between Polski Koncern Naftowy Orlen SA ("PKN Orlen"), as the seller, and PZU FIZ AN BIS 2, as the acquirer ("The Agreement of Sale of CM Medica Shares").

Pursuant to the Share Purchase Agreement for CM Medica's Shares, PZU FIZ AN BIS 2 acquired from PKN Orlen 17,983 shares in CM Medica with the nominal value of PLN 500.00 each, representing 100% of the share capital, which entitles to 100% of votes at the General Meeting of Shareholders. The transfer of shares took place on 9 May 2014.

Under the Agreement of Sale of CM Medica Shares, PZU became the indirect owner of 4,525 shares of the company operating under the name Sanatorium Uzdrowskowe "Krystynka" sp. z o.o. ("SU Krystynka") with the nominal value of PLN 500.00 each, representing 98.58% of the share capital and 98.58% of votes at the General Meeting of Shareholders, which is owned by CM Medica.

Since the acquisition date, which is 9 May 2014 CM Medica and SU Krystynka have been consolidated.

Prof-med

On 8 April 2014, an agreement was signed on the sale of shares in Specjalistyczna Przychodnia Przemysłowa "Prof-med" Sp. z o.o. between Anwil SA ("Anwil"), as the seller, and PZU FIZ AN BIS 2, as the acquirer ("Agreement of sale of Prof-med's Shares").

Pursuant to the Agreement of Sale of Prof-med's Shares, PZU FIZ AN BIS 2 acquired from Anwil 136 shares in Prof-med with the nominal value of PLN 500.00 each, representing 96.45% of the share capital, which entitles to 96.45% of votes at the General Meeting of Shareholders. The transfer of shares took place on 12 May 2014. Since the acquisition date, which is 12 May 2014 Prof-med has been consolidated.

Elvita

On 12 August 2014 an agreement of sale of Elvita's shares was signed between Tauron Dystrybucja SA, Tauron Wytwarzanie SA, Tauron Wydobycie SA (jointly referred to as "Tauron Group"), as the sellers, and PZU FIZ AN BIS 2, as the acquirer ("Agreement of sale of Elvita's shares".) The transfer of shares took place on 1 December 2014.

Pursuant to the Agreement of sale of Elvita's shares, PZU FIZ AN BIS 2 has acquired from Tauron Group 14,984 Elvita's shares with the nominal value of PLN 500.00 each, representing 98.82% of the share capital, which entitles to 98.82% of votes at the General Meeting of Shareholders.

In addition, PZU became the indirect holder of 57 shares in the company operating under the name of Przedsiębiorstwo Usług Medycznych "Proelmed" sp. z o.o. with the nominal value of PLN 500.00 each, constituting 57.00% of shares in its share capital and granting the right to 57.00% of votes at the General Meeting of Shareholders, owned by Elvita.

Since the acquisition date, which is 1 December 2014 Elvita and Proelmed have been consolidated.

Purchase price allocation for health care companies

Purchase price allocation for these subsidiaries has been prepared on the basis of the data prepared as at 30 April 2014 (CM Medica, SU Krystynka, Prof-Med) and as at 30 November 2014 (Elvita, Proelmed). There were no significant differences in the accounting data between the data based on which the purchase price allocation was finalised and the data as at the respective acquisition dates.

During the calculation of goodwill, the carrying amounts of property, plant and equipment, have been remeasured to fair value and new intangible assets have been identified that had not been hitherto recognised by the companies.

Fair value of the acquired assets at the time of the acquisition of control	Final settlement (in thousands PLN)
Intangible assets	381
Property, plant and equipment	32,868
Financial assets	7,420
Receivables	7,949
Deferred tax assets	1,398
Other assets	1,938
New intangible assets identified during the acquisition – customer relations	16,145
Total assets	68,099
Liabilities	15,437
Non-controlling interest	779
Share in fair value of the acquired net assets	51,883
Fair value of consideration transferred – in cash	81,463
Calculated goodwill	29,580

The company's goodwill will not be subject to tax deduction.

2.4.5.6. Acquisition of shares of PZU Finance AB (publ.)

On 2 June 2014, PZU acquired the shares of PZU Finance AB (publ.) (until 16 June 2014 operating under the name Goldcup 9812 AB) for the amount of SEK 500,000 (PLN 236 thousand), which has been consolidated since that date.

On 3 July 2014 the company issued bonds as described in Note 51.

2.4.5.7. Financial data of the acquired entities

The following table presents financial data of the entities acquired in 2014 and included in the consolidated statement of profit or loss. The data have been prepared in accordance with IFRS and they are for the period in which the companies were controlled by PZU Group.

Consolidated statement of profit or loss	AAS Balta	Link4	Lietuvos Draudimas AB	Branch of Codan	CM Medica	SU Krystynka	Prof-Med	Elvita	Proelmed
Gross written premiums	120,925	138,875	82,724	22,359	-	-	-	-	-
Reinsurer's share in written premiums	(3,020)	(7,748)	(758)	(821)	-	-	-	-	-
Net written premium	117,905	131,127	81,966	21,538	-	-	-	-	-
Change in net unearned premiums reserve	(8,366)	(8,502)	(1,810)	289	-	-	-	-	-
Net earned premiums	109,539	122,625	80,156	21,827	-	-	-	-	-
Revenue from commissions and fees	-	-	-	-	-	-	-	-	-
Net investment income	(117)	5,602	1,768	-	39	2	15	7	2
Net result on realization and impairment losses on investments	(21)	(1,377)	825	-	-	-	(9)	(20)	-
Net change in the fair value of assets and liabilities measured at fair value	1,638	-	-	-	-	-	-	-	-
Other operating income	1,093	1,037	323	66	18,704	3,057	4,093	2,788	524
Claims, benefits and change in technical provisions	(83,658)	(99,285)	(46,274)	(20,544)	-	-	-	-	-
Reinsurers' share in claims, benefits and change in technical provisions	14,763	2,770	1,399	394	-	-	-	-	-
Net claims and benefits	(68,895)	(96,515)	(44,875)	(20,150)	-	-	-	-	-

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Consolidated statement of profit or loss	AAS Balta	Link4	Lietuvos Draudimas AB	Branch of Codan	CM Medica	SU Krystynka	Prof-Med	Elvita	Proelmed
Change in measurement of investment contracts	-	-	-	-	-	-	-	-	-
Acquisition costs	(4,449) ¹⁾	(2,931) ¹⁾	(9,459) ¹⁾	(1,604) ¹⁾	-	-	-	-	-
Administrative expenses	(19,811)	(13,461)	(17,398)	(3,816)	-	-	-	-	-
Other operating costs	(38,721) ²⁾	(18,187) ³⁾	(42,416) ⁴⁾	(3,986) ⁵⁾	(18,272)	(2,695)	(4,031)	(3,118)	(660)
Operating profit (loss)	(19,744)	(3,207)	(31,076)	(7,663)	471	364	68	(343)	(134)
Borrowing costs	-	(379)	(67)	-	(33)	-	-	(1)	-
Share in net profit (loss) of entities measured using the equity method	-	-	-	-	-	-	-	-	-
Gross profit/(loss)	(19,744)	(3,586)	(31,143)	(7,663)	438	364	68	(344)	(134)
Income tax	-	-	-	-	-	-	-	-	-
- current portion	-	-	(71)	-	(366)	(76)	(39)	104	-
- deferred portion	2,279	5,743	7,168	-	309	(47)	22	(37)	13
Net profit/(loss)	(17,465)	2,157	(24,046)	(7,663)	381	241	51	(277)	(121)
- profit/(loss) attributable to equity holders of the parent company	(17,464)	2,157	(24,040)	(7,661)	381	238	49	(274)	(68)
- profit/(loss) attributable to non-controlling interest	(1)	-	(6)	(2)	-	3	2	(3)	(53)

¹⁾ Acquisition costs do not include the change in deferred acquisition costs for which fair value as at the acquisition date equals 0;

²⁾ Including PLN 31,201 thousand of amortisation of intangible assets acquired on business combination;

³⁾ Including PLN 14,888 thousand of amortisation of intangible assets acquired on business combination;

⁴⁾ Including PLN 36,224 thousand of amortisation of intangible assets acquired on business combination;

⁵⁾ Including PLN 3,741 thousand of amortisation of intangible assets acquired on business combination;

2.4.5.8. Consolidated statement of profit and loss, including acquired entities

The following table presents incomes and profits of PZU Group, including the financial data of the acquired subsidiaries calculated as if the acquisition date for all combinations performed throughout the year was the beginning of the financial year.

Consolidated statement of profit and loss, including acquired subsidiaries	1 January – 31 December 2014
Gross written premiums	17,831,969
Reinsurer's share in written premiums	(395,767)
Net written premium	17,436,202
Change in net unearned premiums reserve	(128,091)
Net earned premiums	17,308,111
Revenue from commissions and fees	350,764
Net investment income	1,815,974
Net result on realization and impairment losses on investments	421,207
Net change in the fair value of assets and liabilities measured at fair value	514,866
Other operating income	585,083
Claims, benefits and change in technical provisions	(12,258,830)
Reinsurers' share in claims, benefits and change in technical provisions	207,310
Net claims and benefits	(12,051,520)
Change in measurement of investment contracts	(14,031)
Acquisition costs	(2,299,388)
Administrative expenses	(1,643,711)
Other operating costs	(1,090,634)
Operating profit	3,896,721
Borrowing costs	(220,267)
Share in net losses of entities measured using the equity method	(1,525)
Gross profit	3,674,929
Income tax	
- current portion	(682,303)
- deferred portion	(28,244)
Net profit	2,964,382

2.4.6. Establishment of Arm Property sp. z o.o.

Arm Property sp. z o.o. was registered on 26 November 2014. The Company's equity is PLN 50 thousand and is divided into 1,000 shares, at PLN 50 per share. All shares have been acquired by Armaton SA.

3. The shareholding structure

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

At 31 December 2014

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

At 31 December 2013

No.	Shareholder's name	Number of shares and votes at GMS	Percentage shares in the share capital and total number of votes at GMS
1	State Treasury	30,385,253	35.1875%
2	Other shareholders	55,967,047	64.8125%
Total		86,352,300	100.00%

Information on the number of shares included in the calculation of profits per share are presented in Note 25 .

3.1.1. Transactions involving significant packages of PZU shares

In the period from 1 January 2014 to the date of signing the consolidated financial statements, there was one significant change in the ownership structure of significant PZU's shares packages.

On 29 May 2014, Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA presented PZU with a notice concerning a change in the ownership of PZU shares by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK ("Aviva OFE"), informing that as the result of the transaction of purchase of PZU's shares on 22 May 2014, as at 27 May 2014, Aviva OFE increased its volume of shares held in PZU to 5.0001% of PZU share capital, which constitutes 5.0001% of the total votes at the General Meeting of Shareholders of PZU.

3.1.2. Highest-level parent entity of PZU

As at 31 December 2014 the State Treasury of the Republic of Poland (the "State Treasury") held 35.1875% of PZU shares giving the right to 35.1875% of votes at the Shareholders' Meeting. Therefore, there was no higher-level parent entity of PZU preparing its consolidated financial statements.

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

4.1 Composition of the parent entity's Management Board

In the period from 1 January 2014 until 31 December 2014, the composition of PZU Management Board was as follows:

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

On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014.

Composition of the Management Board of PZU between 1 January 2015 and the date of signing the consolidated financial statements:

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

4.2 Composition of the parent entity's Supervisory Board

In the period from 1 January 2014 until 18 June 2014, the composition of the Supervisory Board of PZU was as follows:

- Waldemar Maj – President of the Board;
- Zbigniew Ćwiąkański – Vice-President of the Board;
- Tomasz Zganiacz – Secretary of the Board;
- Dariusz Daniluk – Member;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Włodzimierz Kiciński – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

On 17 June 2014, the Greeting Meeting of Shareholders of PZU adopted a resolution dismissing Dariusz Daniluk, Włodzimierz Kiciński and Waldemar Maj from the Supervisory Board of PZU and resolutions appointing Aleksandra Magaczewska, Dariusz Kacprzyk and Jakub Karnowski as members of the Supervisory Board of PZU. The resolutions came into force on 18 June 2014.

On 15 July 2014, the Supervisory Board of PZU entrusted Aleksandra Magaczewska with the function of the Chairman of the Supervisory Board of PZU.

Composition of the Supervisory Board of PZU between 18 June 2014 and the date of signing the consolidated financial statements:

- Aleksandra Magaczewska – President of the Board (since 15 July 2014, during the period of 18 June 2014 – 15 July 2014 – the Member of the Board);
- Zbigniew Ćwiąkalski – Vice-President;
- Tomasz Zganiacz – Secretary of the Board;
- Zbigniew Derdziuk – Member;
- Dariusz Filar – Member;
- Dariusz Kacprzyk – Member;
- Jakub Karnowski – Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski – Member.

4.3 Directors in the Group

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

Directors at PZU Group as at 1 January 2014:

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

On 15 January 2014, the Management Board of PZU appointed Tobiasz Bury as Director of PZU Group effective from 16 January 2014.

Directors of PZU Group from 16 January 2014 to the date of signing of the consolidated financial statements:

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

5. Summary of significant accounting policies

The consolidated financial statements have been drawn up on historical cost basis, except from remeasurements of investment property and some financial instruments, which are measured at fair value.

5.1 Changes in accounting policies, accounting estimates and errors

The accounting policies are changed only if the change:

- is required by an IFRS; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Group's financial position, financial performance or cash flows – voluntary application.

Changes in accounting policies upon initial application of an IFRS are applied in accordance with transitional provisions included in that IFRS. When changes in accounting policies are made upon initial application of an IFRS that does not include specific transitional provisions applying to that change, or the changes are made voluntarily, it shall apply the change retrospectively. Retrospective application of a change in accounting policy requires to adjust the opening balance

of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The items of financial statements determined based on accounting estimates shall be subject to verification if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The results of a change in estimates shall be accounted for prospectively. This means that the amounts concerning transactions, other events and conditions are adjusted from the moment when the change occurred (the change impacts only the current statement of comprehensive income or the results in a given period and future periods).

It is assumed that errors are adjusted in the period when they were made (and not detected). Thus, essential errors from previous periods shall be adjusted retrospectively, and the differences are charged to equity.

5.1.1. Changes in the applied IFRS

5.1.1.1. Standards and interpretations as well as changes in standards effective from 1 January 2014

The following new standards, interpretations and changes in standards have been applied to these consolidated financial statements:

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRS 10 - Consolidated Financial Statements	1 January 2013 ¹⁾	1254/2012	IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the returns. As a result of the application of IFRS 10 as at the beginning of 2014, the subfunds PZU Energia Medycyna Ekologia, PZU Akcji Rynków Wschodzących, PZU Akcji Spółek Dywidendowych and PZU FIZ Forte have been consolidated. In the consolidated assets and liabilities, the assets and liabilities of consolidated funds were disclosed rather than shares. The effect of applying the new standard to the consolidated statement of financial position, the consolidated statement of profit and loss and the consolidated statement of comprehensive revenues is presented in Note 3.3.1. Due to the retrospective application of the new standard, the figures for concerning the year 2013 were subject to transformation.
IFRS 11 – Joint Arrangements	1 January 2013 ¹⁾	1254/2012	IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly related parties is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. The application of IFRS 11 does not have a material impact on the consolidated financial statements of PZU Group.

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2013 ¹⁾	1254/2012	IFRS 12 requires the provision of improved information on both consolidated and unconsolidated entities. The objective of IFRS 12 is to provide information in a way that enables the users of financial statements to evaluate the basis for the control, restrictions imposed on consolidated assets and liabilities, exposure to risks arising from the involvement in the non-consolidated structural units and the involvement of the non-controlling interest holders in the operations of consolidated entities. As a result of the application of IFRS 12, PZU Group presented additional disclosure statements relating to associated entities and joint ventures. Since in PZU Group there are no subsidiaries with non-controlling interest relevant to PZU Group, the disclosures required by IFRS 12 for such entities are not presented.
Transition Guidance (Amendments do IFRS 10, IFRS 11 and IFRS 12)	1 January 2013 ¹⁾	313/2013	The amendments are intended to provide further explanation regarding the transitional provisions of IFRS 10, IFRS 11 and IFRS 12 in such a manner to limit the requirements on restating comparative information only to the preceding comparative period.
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014	1174/2013	The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The change does not affect PZU Group.
Revised IAS 27 “Separate Financial Statements”	1 January 2013 ¹⁾	1254/2012	The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. The change does not affect PZU Group.
Revised IAS 28 “Investments in Associates and Joint Ventures”	1 January 2013 ¹⁾	1254/2012	IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.
Amendments to IAS 32 - offsetting financial assets and financial liabilities	1 January 2014	1256/2012	Amendments provide clarifications on the application of the offsetting rules and focus on four main areas: the meaning of “currently has a legally enforceable right of set-off”; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
Amendments to IAS 36 – disclosure of information on recoverable amounts for non-financial assets	1 January 2014	1374/2013	Narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The aforesaid change did not exert any effect on the consolidated financial statements of PZU Group.
Amendments to IAS 39 - Regarding novation of derivatives and continuation of hedge accounting	1 January 2014	1375/2013	The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met The amendment did not affect the consolidated financial statements of PZU Group (no hedge accounting).

¹⁾ The EC voted in favour of the regulation to be applicable to annual periods beginning on 1 January 2014 at the latest (early application was allowed).

5.1.1.2. Standards, Interpretations and changes in standards issued but not effective as at the balance sheet date

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

- Endorsed by European Commission resolution:

Standard/ Interpretation	Date of entry into force for periods beginning on	Resolution endorsing a standard or interpretation	Description
IFRIC 21 "Levies"	17 June 2014 and later	634/2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the event resulting in the creation of an obligation to pay a public fee in a Business operations subject to a public fee, as specified in the relevant laws. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 - Financial Instruments	24 July 2014	1 January 2018	The standard replaces IAS 39 and establishes the requirements regarding the recognition and measurement of impairment, derecognition and hedge accounting. The standard introduces a new approach to the classification of financial assets, which depends on the characteristics of cash flows and the business model associated with the given assets. The standard unifies the impairment model for all financial instruments. The new expected loss impairment requires faster recognition of expected credit losses. The standard introduces a reformed model of hedge accounting, with enhanced disclosure requirements for risk management activities. Due to the long lead time of entry into force, no estimates of the impact of IFRS 9 on the total income and equity PZU Group were made.
Amendments to IAS 19 - Employee benefits - defined benefit programmes - employee contributions	21 November 2013	1 July 2014	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
IFRS 14 – Regulatory Deferral Accounts	30 January 2014	1 January 2016	Allowing entities applying IFRS for the first time, and which now the regulatory deferral accounts in accordance with their previous generally accepted accounting principles, the continuation of the recognition of these balances in the transition to IFRS. The change does not affect PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 15 – Revenue from Contracts with Customers	28 May 2014	1 January 2017	IFRS 15 defines how and when to recognise revenues and requires the provision of more detailed disclosures. The standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and many interpretations related to revenue recognition. The Standard applies to almost all contracts with customers (the main exceptions relate to lease agreements, financial instruments and insurance contracts). The fundamental principle of the new standard concerns the recognition of revenues in such a way as to reflect the transfer of goods or services to customers and in such amount that reflects the amount of remuneration (i.e. payments), to which the company expects to obtain the rights in exchange for goods or services. The standard also provides guidance concerning the accounting for transactions that were not specifically regulated by previous standards (eg. revenues from services or modification of contracts), as well as more extensive explanations about the recognition of multi-element contracts. Due to the long lead time of entry into force and the lack of application in relation to insurance companies of PZU Group, the potential impact of adopting the new standard on comprehensive revenues and equity has not been estimated.
Amendments to IFRS 2010-2012	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of 'vesting condition'; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and liabilities; proportionate restatement of accumulated depreciation application in revaluation method and clarification on management personnel. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendments to IFRS 2011-2013	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting treatment in situations in which the freedom of interpretation was previously acceptable. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exception for joint ventures; scope of paragraph 52 of IFRS 13 (net exposure exception) and clarifying the interrelationship of IFRS 3 and IAS 40 (additional services). The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 2012-2014	25 September 2014	1 January 2016	Amendments to IFRS 5 – adding guidance on how to reclassify assets held for sales to assets held for distribution to owners and conversely, and instances of discontinued classification of assets held for distribution to owners. Amendments to IFRS 7 – adding guidance on how to conduct disclosures of contracts on handling assets and explanations of amendments applied to IFRS 7 concerning offsetting in condensed interim financial statements. Amendment to IFRS 19 – explanation that high quality corporate bonds used for the estimation of the discount rate applied to calculate post-employment benefits shall be denominated in the same currency in which the benefits will be paid (hence, the market activity concerning the bonds should be evaluated at the currency level). Amendments to IAS 34 – clarification of terms. The aforesaid change does not exert any significant effect on the consolidated financial statements of PZU Group.
Amendments to IFRS 10 and IAS 28 – Sales or transfer of assets between an investor and an associated entity or a joint venture	11 September 2014	1 January 2016	The major effect of the amendment is recognition of the full profit or loss whenever a transaction concerns organized business (irrespective of whether it is located within a subsidiary or not); partial profits or losses are recognized when a transaction concerns particular assets that do not form organized business, even when they are located in a subsidiary. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments to IFRS 11 – settlement of acquisition of shares in a joint venture	6 May 2014	1 January 2016	The amendment clarifies that the purchaser of the shares in joint operations must comply with all the rules regarding acquisition accounting under IFRS 3 and other IFRSs that are not in conflict with IFRS 11 and disclose the information required by these standards. The amendment should not affect the consolidated financial statements of PZU Group.
Amendments to IAS 16 and IAS 38 – an explanation of acceptable methods of depreciation	12 May 2014	1 January 2016	The amendment clarifies that the adoption of depreciation methods based on revenues generated by the assets is not appropriate. The amendment should not affect the consolidated financial statement of PZU Group.
Amendment to IAS 16 and IAS 41 – Bearer plants	30 June 2014	1 January 2016	The amendment introduces a definition of bearer assets and removes them from the scope of the application of IAS 41 by moving them to IAS 16, which will result in change in the method of valuation. The amendment will not affect the consolidated financial statement of PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
Amendment to IAS 27- Equity method in separate financial statements	12 August 2014	1 January 2016	The amendment allows entities to use the equity method in the valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements. The amendment will not affect the consolidated financial statement of PZU Group.
Amendments to IAS 1 – disclosure initiative	18 December 2014	1 January 2016	Adding requirements with respect to an orderly layout of financial statements, introduction of the requirement of reconciling indirect totals in the statement of profit or loss, comprehensive statement of profit or loss, statement of financial position, and in addition adding guidance on importance, level of detail of presentation and accounting principles. The amendment may result in minor modifications of the layout of basic tables in consolidated financial statements of PZU Group.
Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: Exemptions from consolidation applied	18 December 2014	1 January 2016	IFRS 10 – adding supplementary guidance instructing investment entities to perform obligatory consolidation of non-investment subsidiaries rendering services related to investment; adding guidance on the lack of duty to perform consolidated statements in the case of lower-level parent entities being subsidiaries of investment entities. IAS 28 – adding guidance on the application of measurement using the equity method by an investor not being an investment entity with respect to an associated investment entity or a joint-venture. The amendment will not affect the consolidated financial statement of PZU Group.

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

5.1.2. Explanation of differences between the statements published previously and the current consolidated financial statements

5.1.2.1. The application of IFRS 10

PZU Group has applied IFRS 10 as at 1 January 2014, which is the date of initial application, as defined in point C2B of IFRS 10.

As a result of the application of IFRS 10, the following entities have been consolidated: Subfund PZU Energia Medycyna Ekologia, Subfund PZU Akcji Rynków Wschodzących, Subfund PZU Akcji Spółek Dywidendowych and PZU FIZ Forte. The assets and liabilities of the consolidated funds are included in the assets and liabilities of the consolidated statement of financial position instead of the previous presentation of the value of investments in a given fund at fair value in the appropriate section of "Financial assets" of the consolidated statement of financial position.

Information on judgments adopted by PZU Group in connection with the application of IFRS 10 is presented in Note 6.1.1.

5.1.2.2. Change of the presentation of revenue and cash flows from kick-backs

In the consolidated financial statements for 2014, the presentation of revenue from kick-backs due to holding a considerable amount of assets in funds managed by fund societies has been amended and presented in the section "Net investment income" instead of "Revenue from commission and fees" and "Other operating income".

As a result, the benefits have been included in the section "Other inflows from investments" instead of "Other inflows from operating activities" and "Inflows from other investments" of the statement of cash flows.

5.1.2.3. Amendment to the presentation of cash flows from premium refunds

In the consolidated financial statements for 2014, a change of the presentation of cash flows from premiums refunds has been introduced – they have been included in the section "Other operating outflows" instead of reducing the item "Inflows from insurance premiums".

5.1.2.4. Effect of the amendments on the consolidated financial statements

The effect of applying the aforementioned changed on the consolidated statement of financial position, the consolidated statement of profit and loss and the consolidated statement of other comprehensive income is presented in the tables below.

Assets	31 December 2013 (approved)	Adjustment	Note	31 December 2013 (restated)	1 January 2013 (approved)	Adjustment	Note	1 January 2013 (restated)
Intangible assets	308,726	-		308,726	183,238	-		183,238
Goodwill	8,519	-		8,519	8,474	-		8,474
Property, plant and equipment	927,281	-		927,281	992,317	-		992,317
Investment property	1,474,770	-		1,474,770	564,404	-		564,404
Entities measured using the equity method	48,595	-		48,595	-	-		-
Financial assets	54,688,714	397,014		55,085,728	50,423,076	(34,011)		50,389,065
Financial instruments held to maturity	18,859,902	-		18,859,902	21,117,559	-		21,117,559
Financial instruments available for sale	1,922,173	(2,061)	5.1.2.1	1,920,112	3,924,501	(100,092)	5.1.2.1	3,824,409
Financial instruments measured at fair value through profit or loss	19,790,102	114,074	5.1.2.1	19,904,176	15,628,401	66,081	5.1.2.1	15,694,482
Loans and receivables	14,116,537	285,001	5.1.2.1	14,401,538	9,752,615	-		9,752,615
Receivables, including insurance receivables	2,664,986	6,978	5.1.2.1	2,671,964	1,835,793	5,080	5.1.2.1	1,840,873
Reinsurers' share in technical provisions	526,605	-		526,605	749,334	-		749,334
Estimated salvages and subrogations	129,950	-		129,950	121,632	-		121,632
Deferred tax assets	16,949	-		16,949	13,963	-		13,963
Current income tax receivables	34,895	-		34,895	80,646	-		80,646
Deferred acquisition costs	609,819	-		609,819	574,489	-		574,489
Other assets	195,449	-		195,449	178,646	-		178,646
Cash and cash equivalents	548,266	20,891	5.1.2.1	569,157	136,586	125,477	5.1.2.1	262,063
Assets held for sale	178,897	-		178,897	46,962	-		46,962
Total assets	62,362,421	424,883		62,787,304	55,909,560	96,546		56,006,106

Equity and liabilities	31 December 2013 (approved)	Adjustment	Note	31 December 2013 (restated)	1 January 2013 (approved)	Adjustment	Note	1 January 2013 (restated)
Equity								
Issued share capital and other equity attributable to the equity holders of the parent entity								
Share capital	86,352	-		86,352	86,352	-		86,352
Other reserves	9,061,508	(157)		9,061,351	9,105,450	(75)		9,105,375
Treasure shares	-	(110)	5.1.2.1	(110)	-	-		-
Supplementary capital	8,855,999	-		8,855,999	8,780,212	-		8,780,212
Revaluation reserve	242,344	(47)	5.1.2.1	242,297	363,242	(75)	5.1.2.1	363,167
Actuarial gains and losses from remeasurements of defined benefit liabilities	902	-		902	-	-		-
Exchange differences from translation	(37,737)	-		(37,737)	(38,004)	-		(38,004)
Unappropriated result	3,963,586	1		3,963,587	4,998,329	75		4,998,404
Retained earnings	2,396,978	159	5.1.2.1	2,397,137	4,998,329	75	5.1.2.1	4,998,404
Net profit	3,293,654	(158)	5.1.2.1	3,293,496	-	-		-
Appropriations of net profit during the financial year	(1,727,046)	-		(1,727,046)	-	-		-
Non-controlling interest	16,341	-		16,341	79,138	-		79,138
Total equity	13,127,787	(156)		13,127,631	14,269,269	-		14,269,269

Equity and liabilities	31 December 2013 (approved)	Adjustment	Note	31 December 2013 (restated)	1 January 2013 (approved)	Adjustment	Note	1 January 2013 (restated)
Liabilities								
Technical provisions	37,324,416	-		37,324,416	35,400,778	-		35,400,778
Unearned premiums and unexpired risk reserve	4,540,011	-		4,540,011	4,537,167	-		4,537,167
Life insurance provision	16,048,191	-		16,048,191	15,675,243	-		15,675,243
Outstanding claims provisions	6,586,781	-		6,586,781	5,878,445	-		5,878,445
Provision for capitalized value of annuities	5,761,332	-		5,761,332	5,660,281	-		5,660,281
Provisions for bonuses and rebates for the insured	2,893	-		2,893	4,227	-		4,227
Other technical provisions	477,987	-		477,987	531,617	-		531,617
Unit-linked technical provision	3,907,221	-		3,907,221	3,113,798	-		3,113,798
Investment contracts	2,121,037	-		2,121,037	2,299,147	-		2,299,147
- with guaranteed and fixed terms and conditions	1,250,492	-		1,250,492	1,297,224	-		1,297,224
- unit-linked	870,545	-		870,545	1,001,923	-		1,001,923
Provisions for employee benefits	123,380	-		123,380	107,307	-		107,307
Other provisions	192,906	-		192,906	267,456	-		267,456
Provision for deferred income tax	255,399	-		255,399	357,557	-		357,557
Current income tax liabilities	53,372	-		53,372	21,658	-		21,658
Derivatives instruments	237,749	-		237,749	129,921	226	5.1.2.1	130,147
Other liabilities	8,926,375	425,039	5.1.2.1	9,351,414	3,056,467	96,320	5.1.2.1	3,152,787
Liabilities related to continued operations	49,234,634	425,039		49,659,673	41,640,291	96,546		41,736,837
Total liabilities	49,234,634	425,039		49,659,673	41,640,291	96,546		41,736,837
Total equity and liabilities	62,362,421	424,883		62,787,304	55,909,560	96,546		56,006,106

Consolidated statement of profit or loss	1 January – 31 December 2013 (approved)	Adjustment	Note	1 January – 31 December 2013 (restated)
Gross written premiums	16,480,003	-		16,480,003
Reinsurer's share in written premiums	(257,037)	-		(257,037)
Net written premium	16,222,966	-		16,222,966
Change in net unearned premiums reserve	25,803	-		25,803
Net earned premiums	16,248,769	-		16,248,769
Revenue from commissions and fees	319,962	(14,076) (6,717)	5.1.2.2 5.1.2.1	299,169
Net investment income	1,844,932	19,964 1,754	5.1.2.2 5.1.2.1	1,866,650
Net result on realization and impairment losses on investments	25,045	17,502	5.1.2.1	42,547
Net change in the fair value of assets and liabilities measured at fair value	618,091	(12,733)	5.1.2.1	605,358
Other operating income	491,109	(5,888)	5.1.2.2	485,221
Claims, benefits and change in technical provisions	(11,195,277)	-		(11,195,277)
Reinsurers' share in claims, benefits and change in technical provisions	34,053	-		34,053
Net claims and benefits	(11,161,224)	-		(11,161,224)
Change in measurement of investment contracts	(77,715)	-		(77,715)
Acquisition costs	(2,015,938)	-		(2,015,938)
Administrative expenses	(1,406,480)	-		(1,406,480)
Other operating expenses	(705,599)	-		(705,599)
Operating profit	4,180,952	(194)		4,180,758
Borrowing costs	(61,664)	-		(61,664)
Share in net profit (loss) of companies measured using the equity method	1,404	-		1,404
Profit before tax	4,120,692	(194)		4,120,498
Income tax				
- current portion	(885,776)	-		(885,776)
- deferred portion	60,197	36	5.1.2.1	60,233
Net profit, including:	3,295,113	(158)		3,294,955
- profit attributable to equity holders of the parent entity	3,293,654	(158)		3,293,496
- profit attributable to non-controlling interest	1,459	-		1,459

Consolidated statement of comprehensive income	1 January – 31 December 2013 (approved)	Adjustment	Note	1 January – 31 December 2013 (restated)
Net profit	3,295,113	(158)		3,294,955
Other comprehensive income	(104,510)	28		(104,482)
Amounts subject to subsequent transfer to statement of profit or loss	(119,857)	28		(119,829)
Measurement of available-for-sale financial instruments	(120,129)	28	5.1.2.1	(120,101)
Exchange differences from translation	292	-		292
Other comprehensive income of entities measured using the equity method	(20)	-		(20)
Amounts not subject to subsequent transfer to statement of profit or loss	15,347	-		15,347
Property reclassified from property, plant and equipment to investment property	14,445	-		14,445
Actuarial gains and losses from remeasurements of defined benefit liabilities	902	-		902
Total net comprehensive income	3,190,603	(130)		3,190,473
- comprehensive income attributable to equity holders of the parent entity	3,189,139	(130)		3,189,009
- comprehensive income attributable to non-controlling interest	1,464	-		1,464

Selected items from consolidated statement of cash flows	1 January – 31 December 2013 (approved)	Adjustment	Note	1 January – 31 December 2013 (restated)
Cash flows from operating activities				
Inflows	19,673,140	542,825		20,215,965
- inflows from insurance premiums	16,065,448	315,661	5.1.2.3	16,381,109
- inflows from sale of units by investment fund	667,262	241,354	5.1.2.1	908,616
- other inflows from operating activities	1,262,485	(4,358) (9,832)	5.1.2.1 5.1.2.2	1,248,295
Outflows	(16,840,369)	(429,602)		(17,269,971)
- outflows from purchase of units by investment fund	(402,519)	(113,359)	5.1.2.1	(515,878)
- other operating outflows	(1,417,037)	(315,661) (582)	5.1.2.3 5.1.2.1	(1,733,280)
Net cash flows from operating activities	2,832,771	113,223		2,945,994
Cash flows from investment activities				
Inflows	657,482,806	5,318,572		662,801,378
- disposal of shares	8,201,739	4,081	5.1.2.1	8,205,820
- inflows from buy sell-back transactions	360,885,329	5,424,330	5.1.2.1	366,309,659
- inflows from other investments	18,892,364	(8,572) 148	5.1.2.2 5.1.2.1	18,883,940
- interest received	2,163,196	4,219	5.1.2.1	2,167,415
- dividends received	127,240	249	5.1.2.1	127,489
- cash inflows due to changes in the consolidation scope	479,751	(124,287)	5.1.2.1	355,464
- other inflows from investments	-	18,404	5.1.2.2	18,404

Selected items from consolidated statement of cash flows	1 January – 31 December 2013 (approved)	Adjustment	Note	1 January – 31 December 2013 (restated)
Outflows	(659,878,598)	(5,536,381)		(665,414,979)
- acquisition of shares	(9,577,388)	(57,553)	5.1.2.1	(9,634,941)
- decrease in cash balance due to changes in the consolidation scope	(14,551)	14,551	5.1.2.1	-
- outflows from buy sell-back transactions	(362,298,300)	(5,493,276)	5.1.2.1	(367,791,576)
- other investments outflows	(10,418)	(103)	5.1.2.1	(10,521)
Net cash flow from investment activities	(2,395,792)	(217,809)		(2,613,601)
Net cash flow from financing activities	(19,583)	-		(19,583)
Total net cash flows	417,396	(104,586)		312,810
Cash and cash equivalents at the beginning of the financial year	136,586	125,477	5.1.2.1	262,063
Change in cash due to exchange differences	(5,716)	-		(5,716)
Cash and cash equivalents at the end of the financial year	548,266	20,891	5.1.2.1	569,157

5.2 Consolidation principles

These consolidated financial statements for the financial year ended on 31 December 2014 include data of the parent entity and all its subsidiaries after elimination of intercompany transactions.

A subsidiary is an entity that is controlled by another entity. That means that the latter simultaneously has: power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

In case of losing control over an investment fund, its consolidation is being ceased and the assets and liabilities of this fund are being excluded from consolidated statement of financial position, as well as potential liabilities to its participants. In exchange, the participation units or investment certificates that correspond with the fair value of shares of PZU Group in net assets of such a fund are presented in the statement.

Consolidation involves combining similar items of assets, liabilities, equity, revenue, costs and cash flows of a parent entity and its subsidiaries. Then, the carrying amount of the parent entity's investment in each subsidiary is eliminated along with the part of equity of each subsidiary that corresponds to the share of the parent entity. Moreover, the assets and liabilities, revenue, costs and cash flows related to the intragroup transactions within PZU Group are eliminated in full.

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

Subsidiaries are subject to consolidation from the commencement of control until the cessation of control.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries denominated in foreign currencies have been presented in Note 5.3.

5.3 Recognition of foreign currency transactions and balances and applied exchange rates

Transactions executed in currency other than Polish zloty (PLN) are recognized at the NBP exchange rate valid for the transaction date. As at the end of the financial year, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Exchange differences from translation are charged directly to the statement of profit or loss.

Financial data of foreign subsidiaries are translated into PLN:

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

Exchange differences are recognized under "Exchange differences from translation" in equity.

The following exchange rates have been applied in the consolidated financial statements:

Currency exchange rates adopted to translate financial data of foreign operations	1 January - 31 December 2014	31 December 2014	1 January - 31 December 2013	31 December 2013	1 January 2013
EUR	4.1892	4.2623	4.2110	4.1472	4.0882
LTL	1.2133	1.2344	1.2196	1.2011	1.1840
UAH	0.2637	0.2246	0.3886	0.3706	0.3825

5.4 Acquisition method

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

In the case of acquisition of an entity, an acquirer is determined as well as the acquisition date being the day on which it obtains control of the acquiree. On the acquisition date, identifiable assets acquired, liabilities assumed and non-controlling interest in the acquiree are recognised separately from goodwill.

All identifiable assets acquired and liabilities assumed are measured at acquisition-date fair value.

In the case of every acquisition, all non-controlling interest in an acquiree are measured at value of a proportional share of non-controlling interest in identifiable net assets of the acquiree.

Goodwill

Goodwill is measured and recognized as at the acquisition date as the difference between:

- the consideration transferred measured at their acquisition-date fair value;
- non-controlling interest in the acquiree, measured as described above;

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

In the measurement period, PZU Group may retrospectively adjust provisional amounts recognized as at the acquisition date, so as to reflect new information obtained concerning the facts and circumstances at the acquisition date, which, if known, could have an effect on measurement of the amounts recognized as at the aforementioned date. Pursuant to IFRS 3 point 45, the measurement period shall not exceed one year after the acquisition date.

Intangible assets

Intangible assets acquired on business combination transactions are recognized at fair value as at the acquisition date. Fair value of intangible assets reflects expectations as to the probability that the entity achieves economic benefits from a given asset. Fair value of intangible assets is determined in the following manner:

- trademark – using the relief-from-royalty method, based on potential savings on the licence fees the entity will not be charged with being the owner of the trademark (i.e. the present value of future licence fees), determining the market rate of licence fees involves an analysis of licence rates for using trademarks applied between unrelated parties in a comparable market segment. Then, hypothetical licence payments are established, defined as the product of the adopted licence fee and the value of estimated revenue from sales. In order to calculate the net income from licence, licence payments should be reduced by the hypothetical amount of income tax. To the calculated net cash flows the potential tax savings on tax depreciation of a trademark should be added, the so-

called TAB (tax amortisation benefit). Finally, the indicated cash flows are discounted using the discount rate reflecting, among others, the typical risk of a given trademark;

- Broker and customer relations – using the MEEM method (multi-period excess earnings method) based on the present value of future profits generated by the respective relations. Fair value is determined based on discounted future cash flows arising from the additional revenue generated by the company owning a given intangible asset as compared to the revenue generated by the company if it did not hold such an asset. The relations are identified along with the projected period of their duration (using an appropriate churn rate and applying the so-called Weibull's curve); revenue and costs related to individual relations are projected. The identified and calculated CAC (contributory asset charge), including retaining capital ratios at levels required by supervisory authorities, fixed assets, organized workforce, trademark and other intangible assets, is applied to cash flows after tax. Should there be any tax structures in place allowing an average market participant for tax depreciation of the relations, the TAB should be included in its measurement;
- present value of future profits (value in force) – as a potential excess of book value of technical provisions over their fair value, including deferred acquisition costs. Fair value of technical provisions is determined as the expected value of nominal cash flows projected using actuarial methods appropriate for particular provision types, including the specific nature of a given portfolio and market trends. The expected value of future cash flows is determined by discounting projected nominal cash flows using discount rates established on the basis of the risk-free rates' curve. When forecasting nominal cash flows, the following factors are considered: the likelihood of occurrence and the value of future claims, claim handling costs (both direct and indirect) and – in the case of unearned premiums reserve – also administrative expenses related to insurance portfolio management. The estimates take into account reinsurer's share resulting from binding reinsurance treaties. The relevant probability of an event's occurrence is estimated using statistical and actuarial methods, whereas the cash flow value results from relevant provisions of insurance contracts and actuarial analysis.

The discount rate applied to measure the intangible assets reflects the time value of money and risks related to expected cash flows in the future. It is calculated based on the expected return from the best alternative investment as compared with the measured investment. The rate indicates the lowest acceptable return from an asset by the investor in such a manner that the return rate achieved by the investor is at least equal to the best available investment alternative. The return from alternative investment must be comparable in terms of value, time and certainty.

Cost of equity (CE) is estimated as at the acquisition date in accordance with the CAPM (Capital Asset Pricing Model) model: $CE = RF + ERP \times \beta + SP + SR$, where RF stands for risk-free rate, ERP – market risk premium, β – measure of systematic risk borne by the equity holders, including the operational and financial risks related to a given type of activity, SP – low capitalization premium, SR – specific premiums.

Property, plant and equipment

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

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

Technical provisions

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

5.5 Intangible assets

Intangible assets are recognized when they are identifiable, controlled and it is possible that the future economic benefits that are attributable to the assets will flow to the entity and it is possible to reliably measure the cost of the asset, with expected useful life longer than one year.

Intangible assets are measured at costs less accumulated amortisation and impairment losses.

The method applied to determine the fair value of intangible assets acquired in a business combination has been presented in Note 5.4.

Intangible assets include in particular: software, copyright, licences, concessions, as well as assets acquired as a result of business combination transactions: trademarks, customer relations, broker relations, future profits from concluded insurance contracts etc.

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

- intangible assets other than intangible assets acquired in a business combination - using the straight line method over the period of two to five years. If appropriate, following a case-by-case analysis, the entity may apply another amortisation rate suitable for the estimated useful life of the intangible asset. As the main product system is planned to be used by PZU for 10 years, the adopted annual amortisation rate amounts to 10%;
- intangible assets acquired in a business combination (except for acquired trademarks) – over the period from one to thirteen years., on the basis of the profits generated in particular years;
- trademarks acquired in a business combination are intangible assets with an indefinite useful life and are not subject to amortisation; instead, they are subject to the impairment test at the end of each financial year and each and every time when impairment indications occur.

Amortisation is charged under "Other operating costs" in the consolidated statement of profit or loss.

5.6 Goodwill

Goodwill, with the initial value determined using a manner described in Note 5.4, is not subject to amortisation; instead, it is subject to the impairment test at the end of each financial year and each and every time when impairment indications occur. Goodwill is tested for impairment based on the assessment of the recoverable amount of each cash-generating units (CGU) and comparing it with their carrying amount (including the allocated goodwill). The tested CGU cannot be larger than operating segment. Should the recoverable amount be lower, the impairment loss is first allocated to goodwill.

Goodwill related to subsidiaries is recognized under "Goodwill", whereas goodwill related to associates – under "Entities measured using the equity method" in the consolidated statement of financial position.

5.7 Property, plant and equipment

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

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction. An asset is subject to depreciation as long as it is available for use, i.e. from the moment it is adapted to a given location and conditions required so that it can be used in the manner intended.

Annual depreciation rates for material assets are presented in the following table:

Asset type	Rate
Ownership right of cooperative residential or commercial space	2.5%
Buildings and structures	1.5% - 10%
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT equipment	20% - 40%
Other non-current assets	7% - 20%

Assets held under finance leases are depreciated over the period of their useful life when reasonable assurance is provided as to their purchase or ownership transfer. Otherwise they are depreciated over the period not longer than the period of the lease.

5.8 Impairment of property, plant and equipment and intangible assets

At the end of each financial year, assets are reviewed in order to determine if there are any impairment indicators.

It is considered that intangible assets and property, plant and equipment are impaired if as a result of technological changes, plans of liquidation, abandonment or other premises indicating decrease in usefulness of a given asset, the value of expected economic benefits related to intangible assets or property, plant and equipment has fallen.

When such indicators have been identified, an impairment test for a given asset is carried out to determine its recoverable amount. If necessary, an impairment loss is recognised to the recoverable amount. If an asset does not generate cash flows which to a large extent are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to. Impairment losses are recognised in the consolidated statement of profit or loss account under "Other operating expenses".

If there are premises indicating that the impairment losses recognised in previous periods are no longer required and the loss should be decreased, the recoverable value of such an asset is calculated. An impairment loss recognized in the previous periods is reversed to the recoverable value not exceeding the carrying amount that would have been determined (having deducted the depreciation), had the impairment loss not been recognized previously. A reversal of impairment loss is disclosed as income in the consolidated statement of profit or loss under "Other operating expenses".

5.9 Investment property

Investment property is maintained with the purpose of profits from rent or from an increase of the property's value, or with the purpose of benefiting from both simultaneously. Investment properties are not used for operations.

Investment properties are initially disclosed at cost increased by transaction costs. Subsequently, they are measured at fair value, in accordance with rules described in Note 10.1.4. Profits and losses resulting from changes in the fair value of investment property are recognized in the statement of profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

If property used for internal purposes becomes investment property measured at fair value, depreciation is calculated until the reclassification date, and possible impairment losses are recognized and next:

- if the carrying amount calculated as at the given date exceeds fair value, the difference is disclosed in the consolidated statement of profit or loss under "Other operating expenses";
- if the carrying amount to date is lower than fair value, the difference is firstly recognised in the consolidated statement of profit or loss under "Other operating expenses" as a reversal of an impairment loss (to the level of the impairment loss recognised previously, but the amount recognised in the consolidated statement of profit or loss must not exceed the amount that would bring the value of property to the value that would remain after depreciation if no impairment loss was recognised), and the remaining part of the difference – in other comprehensive income under "Property reclassified from property, plant and equipment to investment property".

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

5.10 Associates and joint ventures

Associates are entities over which the parent entity has significant influence i.e. in which it holds enough power to be entitled to participate in the financial and operating policy decisions of the investee, but is not in control or joint control of these policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Associates and joint ventures are measured using the equity method, i.e. initially the investment is recognized at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the associate or joint venture. The share of PZU Group in the financial profit of associates and joint ventures is recognized in the

consolidated statement of profit or loss under "Share in net profit (loss) of entities measured using the equity method" and the share in changes of comprehensive income items – in the statement of other comprehensive income.

At the end of each financial year and every time any impairment indicators are identified, associates and joint venture are tested for impairment. The test is based on the assessment of the recoverable amount of the whole entity and by comparing it with the carrying amounts (including goodwill). If the recoverable amount is smaller, the impairment loss first reduces the carrying amount of goodwill.

5.11 Financial instruments

Financial assets and liabilities are recognized in the statement of the financial position when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded on an organized market, the purchase or sale of financial assets and liabilities is recognized as at the trade date.

Financial instruments are classified at the moment of acquisition according to the categories determined by IAS 39 and they are recognized at fair value adjusted by transaction costs directly attributable to the purchase or sale of a given financial instrument. Instruments measured at fair value through profit or loss for which transaction costs are recognized separately under "Net investment income" are an exception. The fair value of a financial instrument upon initial recognition is usually its transaction price, unless the nature of the financial instrument provides otherwise.

In the case of financial instruments generating interest income, the interest is calculated starting from the first day after the date of transaction settlement.

Shares whose fair value cannot be reliably estimated are measured at cost less any impairment losses.

Financial assets are derecognised from the consolidated statement of financial position if they expire or if the contractual entitlement to cash flows from the given asset is transferred to another entity. The transfer takes place also when contractual entitlement to cash flows from an asset is blocked, but the contractual obligation to transfer these cash flows to a third party is accepted.

When financial assets are transferred, it is estimated to what extent the risk and benefits related to the ownership of an asset remain:

- if the whole risk and benefits related to the ownership of a financial asset is transferred, the financial asset is derecognised from the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset is kept, the financial asset continues to be recognized in the consolidated statement of financial position;
- if practically the whole risk and benefits related to the ownership of a financial asset are neither transferred nor kept, the financial asset continues to be recognized in the consolidated statement of financial position.

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

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

Financial assets and liabilities are classified and measured according to the principles described below.

5.11.1. Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that PZU Group has the positive intention and ability to hold to maturity.

Financial instruments held to maturity are measured at amortised cost and gains or losses on the measurement are recognized under "Net investment income".

5.11.2. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates at the fair value through profit or loss;
- those that the entity upon initial recognition designated as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables include in particular:

- debt securities acquired as part of a contract under which the seller has kept practically all risks and benefits related thereto (buy sell-back transactions);
- debt securities not quoted in an active market;
- deposits in credit institutions;
- granted loans;
- insurance receivables (including reinsurance);
- other receivables.

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

Due to their nature, insurance receivables and other short-term receivables are measured at the nominal value less any impairment losses (the manner of estimating the impairment losses for insurance receivables is described in Note 6.2.2.5).

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

5.11.3. Financial instruments available for sale

Financial instruments available for sale include financial instruments which have not been classified to any other category.

Instruments classified to this category are measured at fair value in accordance with rules described in Note 10.1. The difference between fair value as at the balance sheet date and cost is charged directly to the revaluation reserve. In the case of debt instruments, interest accrued using the effective interest rate is recognized under "Net investment income". The difference between the fair value and the amortised cost is recognized in the revaluation reserve.

In the case of a sale of financial instruments available for sale, the value of accumulated revaluation reserve is derecognized and recognized under "Net profit or loss on realization and impairment loss on financial assets".

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

Financial instruments measured at fair value through profit or loss include:

- financial instruments held for trading – assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments designated upon initial recognition as at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
 - some instruments to cover technical provisions and investment contracts liabilities in life insurance. Adopted classification of those instruments eliminates or significantly reduces a measurement or recognition inconsistency between assets and liabilities covered by those assets;
 - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles;

- liabilities arising from unit-linked investment contracts;
- liabilities to participants of consolidated investment funds.

Fair value measurement principles are described in point 10.1. The effects of a change in the measurement of financial instruments measured at fair value, including interest, are recognized under "Net change in the fair value of assets and liabilities measured at fair value" in the period to which they relate. Changes of value of liabilities arising from unit-linked investment contracts are recognized under "Change in measurement of investment contracts".

Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value, according to the rules described in Note 10.1.3.

Changes in the fair value of derivatives which are not hedging instruments are recognized under "Net change in the fair value of assets and liabilities measured at fair value".

PZU Group entities do not apply hedge accounting.

5.11.5. Financial liabilities other than ones measured at fair value

Financial liabilities measured at amortized cost include:

- Debt instruments issued by PZU Group are recognized under "Liabilities arising from issue of debt instruments. Their remeasurement results are presented under "Borrowing costs";
- Investment contracts with guaranteed and fixed terms and conditions. Their remeasurement results are presented under "Change in measurement of investment contracts";
- Security sales transactions with an obligation to buy them back on a predefined day at a predefined price (sell buy-back transactions). Their remeasurement results are presented under "Borrowing costs".

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

Other financial liabilities are measured at amortised cost.

5.11.6. Impairment of financial assets

As at the end of each financial year, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is assessed.

In the case of any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows occurs, appropriate impairment losses are created and charged to the current period expenses. Expected impairment losses resulting from future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor resulting from financial difficulties of the debtor which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
 - negative changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments) or

- unfavourable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant or prolonged decrease in the fair value of an investment in an equity instrument below the cost (additional information presented in Note 6.2.2.4);
- unfavourable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

In the case of premises indicating impairment of financial instruments available for sale, losses initially recognized in revaluation reserve are charged to the statement of profit or loss.

Impairment losses on financial instruments available for sale charged to profit or loss:

- in the case of equity instruments – must not be reversed;
- in the case of debt instruments – may be reversed, provided that in the subsequent periods the fair value of a given debt instrument increases, and the increase may be objectively associated with the event following recognition of the impairment loss in the statement of profit or loss.

The estimates and judgments used for determination of impairment losses have been presented in Note 6.2.2.

5.12 Salvages and subrogations in non-life insurance

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

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

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

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

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

5.13 Costs of acquisition and deferred acquisition costs

Acquisition costs include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies and research regarding the accepted risk. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuing policies.

Under the accrual basis of accounting, acquisition costs are deferred over time, in accordance with the rules laid down in Notes 5.13.1 and 5.13.2.

Deferred acquisition costs capitalized in the statement of financial position, related both to non-life insurance as well as life insurance, are tested for impairment by the means of Liability Adequacy Tests.

5.13.1. Non-life insurance

Acquisition costs in the case of non-life insurance products are deferred in line with the principles applicable to the the unearned premiums reserve and depreciated in the statement of profit or loss (under "Acquisition costs") over the period of the insurance coverage.

5.13.2. Life insurance

In the case of life insurance products, for traditional individual insurance contracts with discretionary participation features acquisition costs are recognized over time based on the Zillmer method (life insurance, endowment and birth insurance).

5.14 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and at bank.

Cash is recognized at face value.

5.15 Assets and liabilities held for sale and disposal groups

Assets and liabilities or disposal groups are classified as intended for sale, if there is a plan for selling them and a buyer is being actively sought.

Assets and liabilities held for sale and disposal groups are measured at the lower of the two figures: previous carrying amount and fair value less costs to sell.

5.16 Equity

5.16.1. Share capital

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

5.16.2. Treasury shares

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

5.16.3. Supplementary capital

Under "Supplementary capital" the following are recognised:

- effect of profit distribution, in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (consolidated text: Journal of Laws of 2013, item 1030 as amended)) and the By-laws of PZU Group entities.
- capital resulting from sale of investment property which was earlier reclassified from property, plant and equipment in accordance with rules described in Note 5.9;
- difference between decrease of the value of non-controlling interest and fair value of consideration transferred.

5.16.4. Revaluation reserve

"Revaluation reserve" includes the effects of:

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

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

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

This item includes actuarial profits and losses resulting from an increase or a decrease in the present value of defined benefit liabilities due to changes in actuarial assumptions and ex post adjustments thereto. The item includes profits and losses resulting from changes in demographic assumptions (such as mortality, employee turnover ratio) as well as financial assumptions (such as the discount rate or the projected pay growth rates).

5.16.6. Exchange differences from translation

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

5.16.7. Unappropriated result

"Unappropriated result" includes:

- previous year net profit which has not been distributed by the Annual General Meeting/ Shareholders' Meeting;
- current year net profit/ loss;
- uncovered net loss.

Net profit distribution (or loss coverage) of the parent entity and PZU Group entities takes place only with respect to the net profit (loss) recognised in the company's separate financial statements prepared according to the local GAAP effective in the country of residence of the given company.

5.16.8. Non-controlling interest

Non-controlling interest represents the part of a subsidiary's equity which may not be attributed to the parent entity, whether directly or indirectly. Non-controlling interest is measured as the proportional share in identifiable net assets of the subsidiary.

The difference between the decrease of value of non-controlling interest and fair value of payment made is recognised in supplementary capital.

5.17 Insurance contracts

5.17.1. Written premiums and unearned premiums reserve

5.17.1.1. Non-life insurance

Written premiums from insurance contracts and reinsurance treaties are recognized at the date of the insurance contract conclusion.

Written premiums are recognized in proportion to the period of insurance coverage. Part of the written premium for the period of insurance coverage after the balance sheet date is recognized under unearned premiums reserve. The unearned premiums reserve is determined individually as at the end of each financial year, accurate to one day.

The unexpired risks reserve complements the unearned premiums reserve and covers future claims, benefits and costs relating to insurance contracts which do not expire on the last day of the financial year. The unexpired risks reserve is determined for individual insurance groups as at the end of each financial year.

The overall unexpired risks reserve is determined for insurance groups with the claims ratio for the current year exceeding 100%, as the difference between the product of the unearned premiums reserve and the claims ratio for the current financial year and the unearned premiums reserve – for the same coverage period. The reinsurer's share in

written premiums, unearned premiums reserve and unexpired risks reserve is determined in accordance with the terms and conditions of relevant reinsurance treaties.

5.17.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the financial year, irrespective of the fact whether the amounts have been paid or not as well as whether the amounts refer to the whole reporting period or its part. The premiums are adjusted by the change in the unearned premiums reserve during the financial year and reduced by the amount of premium due to the reinsurers. Unearned premiums reserve is created as a portion of written premiums that refers to future financial years.

5.17.2. Claims and benefits paid and technical provisions

5.17.2.1. Non-life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and costs of subrogations and a change in outstanding claims provisions. The costs of claims and benefits are reduced by all received salvages and subrogations as well as by the change in expected salvages and subrogations.

The reinsurers' share in claims and benefits is determined for the groups of insurance with reinsurance, in the amount of reinsurers' share in claims and benefits, in line with relevant reinsurance treaties.

The outstanding claims provision

The outstanding claims provisions include:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the financial year;
- provision for losses and accidents which were incurred by the end of the financial year and were not reported;
- provision for claims handling costs;

The provision for claims reported not paid (RBNP or Provision I) is determined based on an individual approach by claim handling units or, if obtained information disallows determining the provision amount, as the amount of average claim determined with an actuarial method. The provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

The provision for claims incurred but not reported (hereinafter referred to as "IBNR" or "Provision II") is created for claims and benefits which have not been reported by the end of the financial year, when the provision is recognized. IBNR is calculated using the loss triangles: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the years during which losses were incurred. Basis for calculation are annual triangles for claims paid and claims reported.

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

The provision for indirect claims handling expenses is recognized using the actuarial method as the product of the share of indirect claims handling expenses in claims paid to direct claims handling expenses ratio, and the provision for claims reported but not paid, the provision for claims incurred but not reported and the provision for direct claims handling expenses.

Provisions I and II and the provision for claims handling costs are recognized at the nominal value, i.e. they are not discounted.

The reinsurers' share in provisions for unpaid claims and benefits is determined as the amount compliant with the terms and conditions of relevant reinsurance treaties.

Provision for capitalized annuity benefits

The provision for capitalized value of annuities is calculated individually, as the present value of annuity (for life or periodic), paid in advance.

As at the end of each financial year, using actuarial methods a provision for capitalized value of annuities is created for claims incurred after 31 December 1990 by the balance sheet date and not disclosed as annuity (annuity IBNR).

As at the end of each financial year, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of the financial year does is lower than the predetermined percentage of the current value of average salary between 1960 and 1990.

5.17.2.2. Life insurance

Costs of the financial year include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and a change in outstanding claims provisions.

Costs of paid claims and benefits

Benefits paid include all payments and charges made in the financial year due to benefits incurred during the financial year and earlier (also annuity claims and surrenders), together with all direct and indirect, internal and external benefits handling costs. Handling costs include also the costs of litigation.

The value of benefits is recognized at the actually paid amount, following deduction of refunds (except for refunds due to outward reinsurance), increased by the change in outstanding claims provision and reduced by the reinsurers' share in claims paid and provisions.

Life insurance provision

Life insurance provision is determined based on actuarial methods in the following way:

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

Unit-linked technical provision

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

Outstanding claims provisions

Outstanding claims provisions are created independently for:

- claims reported but not paid – using the case-by-case method or when the amount of claim cannot be assessed, if the claims and benefits are large-scale, using the average claim from the quarter immediately preceding the financial year;
- claims incurred but not reported – using the lump-sum method, as the percentage of claims paid for the period of the last twelve months.

Outstanding claims provisions include a claims handling provision.

Provisions for bonuses and rebates for the insured

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

Other technical provisions

Other technical provisions in life insurance include:

- provision for revaluation of claims under individual life insurance and annuity assumed from Państwowy Zakład Ubezpieczeń ("old portfolio");
- provision for pending court proceedings and claims related to court decisions (based on Article 358.3 of the Civil Code of 23 April 1964 (Journal of Laws No. 16 of 1964, item 93, as amended) concerning the change in the amount and the manner of paying a cash performance;

In 1992, PZU transferred individual insurance policies (marriage and life) and annuity contracts ("old portfolio") to PZU Życie.

In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, which resulted in the investment income being below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie partly revalued the old portfolio policies. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective of obtaining higher claims. PZU Życie creates a provision for revaluation of claims under individual insurance policies and annuity contracts taken over from PZU (i.e. the "old portfolio"), which may result from future disputes (court cases and settlements).

The value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts.

- provision for low interest rates – this provision is related to the projected decline in profitability of insurance fund investments for individual life insurance, individual policies with an increasing sum insured and premium, group Firma insurances and annuity insurances. The provision is created according to the actuarial method, on the case-by-case basis, in the amount corresponding to the difference between:
 - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates, including their projected future decrease and
 - the amount of mathematical provisions calculated in line with the valid regulations for creating provisions with the original technical rate applied for other product pricing.

5.17.3. Liability Adequacy Tests

As at the end of each year, forecasts are made for the life insurance contracts in individual classes of products. The forecasts are based on previous trends and extrapolation of identified trends for mortality, accident rate, lapses and forecasted costs of claims management and settlement. The test involves a comparison of the present value of projected discounted cash flows with the amount of provision recognized at the end of each year. In the case when the provisions are found to be insufficient as compared to the value of discounted cash flows, the assumptions concerning provision creation and automatic adjustment of the amount of technical provisions are modified.

The mechanism of creation of unexpired risks reserve in non-life insurance described in Note 5.17.1.1 is in line with the minimum requirements of Liability Adequacy Test described in point 16 of IRFS 4.

5.18 Provisions for employee benefits

5.18.1. Defined contribution plans

Social security contributions

PZU Group entities are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland, they include some of the contribution to pension and disability insurance and all contribution to accident insurance, Fundusz Pracy [Labour Fund] and Fundusz Gwarantowanych Świadczeń Pracowniczych [Guaranteed Employment Benefit Fund] as well as contributions to Zakładowy Fundusz Świadczeń Socjalnych [Social Benefits Fund]. PZU Group entities are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

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

5.18.2. Defined benefit plans

5.18.2.1. Provisions for retirement benefits

Pursuant to the Labour Code of 26 June 1974 (consolidated text: Journal of Laws of 2014, item 1502, as amended), the employees of the PZU Group entities with registered offices in Poland are entitled to a retirement or disability benefit in the amount of a monthly salary at the time when they retire.

The costs of retirement benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

Actuarial profits and losses are recognized in total in the period in which they were disclosed under "Actuarial gains and losses from remeasurements of defined benefit liabilities" under other comprehensive income. Additional information has been presented in Note 5.16.5.

5.18.2.2. Provisions for death benefits

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

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

5.18.3. Costs of paid annual leave

The employees of PZU Group entities are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labour law (in Poland - the Labour Code). In accordance with IAS 19, the cost of employee paid vacation is recognized on an accrual basis, using the liability method. The liability due to employee paid vacation is determined based on the difference between the actual use of the vacation by employees and the balance which would take place if the paid vacation was used in proportion to the lapse of time in the period for which the vacation is due.

5.19 Other provisions

Provisions are liabilities of uncertain timing or amount. A provision is created based on a present obligation that has arisen from past events, which – when fulfilled – will cause an outflow of economic benefits. The amount of the provision is measured based on the best estimate of this outflow as at the balance sheet date.

A provision for restructuring costs is created only when the general criteria of recognizing provisions have been met, together with additional specific criteria related to provisions for restructuring costs, such as a formal, detailed plan of restructuring and arousing justified expectations of parties affected by the plan that the restructuring action should take place (for instance by starting to implement the plan or announcing its key elements).

5.20 Revenue recognition

Recognition of revenue due to insurance contracts has been described in Note 5.17.1.

Interest

Income from interest is recognized on the accrual basis, based on the effective interest rates and it is recognized in the statement of profit or loss under "Net investment income".

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired and they are recognized under "Net investment income".

Income from pension fund management services

Income from the management of OFE PZU is recognized on the accrual basis. The income includes in particular:

- fees on premiums transferred by the Social Insurance Institution ("ZUS") to OFE PZU in the amount specified in the by-laws of OFE PZU and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Journal of Laws 2013, item 989, as amended; "Pension Funds Act");
- management fees specified in the by-laws of OFE PZU, in accordance with the limits specified in the Pension Funds Act;
- other fees determined in the by-laws of OFE PZU.

5.21 Taxes

Income tax recognized in the statement of profit or loss includes the current and the deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in the country where the company has its registered office.

The deferred portion recognized in statement of profit or loss is the difference between the balance of deferred tax liabilities and assets as at the beginning and end of the financial year; deferred tax liabilities and assets for transactions charged to equity are charged to equity.

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which – as expected – will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group entities, issued by the end of the financial year.

5.22 Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary equity holders of PZU (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during this period and multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period.

6. Key estimates and judgments

Preparation of the consolidated financial statement in accordance with IFRS requires from the Management Board of PZU to make professional judgments, estimates and assumptions which have an effect on the adopted accounting principles and the presented value of assets, liabilities, revenue and expenses.

Estimates and assumptions related to them are based on historical data and other factors considered to be rational in given circumstances, whereas their results provide a basis for a professional judgment of the carrying amount of assets and liabilities which does not result directly from other sources.

With respect to important issues, the Management Board of PZU can base on the opinion of independent experts when making judgments, estimates or assumptions.

The actual value may differ from the estimated value. Judgments, estimates and assumptions related to them undergo constant verification. Any changes thereto should be presented as described in 5.1.

6.1 Judgements made

6.1.1. Principles of consolidation of investment funds

Due to the adoption of IFRS 10 on 1 January 2014, PZU Group has assumed that it controls the investment fund if both conditions mentioned below are met:

- PZU Group entities together have the ability to use their power over the fund in order to influence the value of the return on investment and the rationales for this ability are, among others, the control over the investment fund management company, a significant share in the total number of votes at the general meeting of investors or the board of investors;
- the total exposure of PZU Group entities to variable returns from involvement in the investment fund is significant, which means that the total share of PZU Group entities in the net assets of the fund is equal to or exceeds 20%, whereas the determination of the so understood total share does not take into consideration the fund assets that are attributable to unit-linked products. If the involvement does not exceed 20% in the net assets of the fund, the exposure to volatility of the fund's financial results considered together with decision-making powers imply that such a fund is not under control.

PZU Group accepts that the consolidation of the fund will be maintained (or dropped, accordingly) during the period of two subsequent quarters following a quarter which closed with a decrease (or increase, accordingly) of the share in the net assets of the fund below (or above, accordingly) 20% when this decrease (or increase) resulted from amounts paid in (or out) of participants not belonging to PZU Group.

Investment funds controlled by PZU Group are consolidated – their assets are fully presented in the statement of financial position as financial assets by type and portfolio classification, while the liability related to the net assets of the fund held by third-party investors – as other liabilities under “Liabilities to participants of consolidated investment funds”.

6.1.2. Classification of insurance contracts in accordance with IFRS 4

PZU Group entities that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (ie have no discernible effect on the economics of the transaction), ie when the contract involves significant insurance risk transfer.

Assessment whether a contract does transfer significant insurance risk requires an analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a subjective judgment which significantly impacts accounting principles applied. Based on the assumptions adopted by PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, concluded contracts are recognized either in accordance with IFRS 4 or IAS 39.

6.1.3. Contract classification in non-life insurance

The analysis carried out proves that all non-life insurance contracts transfer significant insurance risk and therefore are governed by regulations of IFRS 4.

Additionally, in light of work on the second stage of IFRS 4 carried out by IASB, the Group continues to apply insurance contract accounting to financial guarantees that meet the definition of a financial instrument.

6.1.4. Classification of life insurance contracts

Based on the carried out analysis, it was concluded that products from PZU Group's offer that do not transfer significant insurance risk (they include certain products with guaranteed return rate and some unit-linked ones) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified in the consolidated financial statement as investment contracts measured in accordance with IAS 39 (depending on the product construction), which means at amortised cost or fair value.

Both insurance and investment contracts can include discretionary participation features (DPF). They entitle the insured to receive additional claims or bonuses as an extra to the guaranteed claim. Such a claim constitutes a significant part of the total contractual claim; its amount and period of validity are of contractual nature and they depend on the insurer's discretion and their occurrence depends on:

- a specific set or type of contracts;
- profit or no profit from specific assets;
- profit or loss of the insurer, fund or other entity related to the contract.

All contracts with discretionary participation features, unilaterally specified by the insurance company, are measured in accordance with IFRS 4.

Additionally, no life insurance contracts were identified which would provide for the transfer of both insurance and financial risk and require unbundling of insurance and investment components. In the case of contracts for which unbundling of embedded options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required, the investment component is not unbundled.

6.1.5. Unrecognized deferred tax assets

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

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group entities is presented in Note 38.

6.2 Estimates and assumptions made

6.2.1. Fair value

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

6.2.2. Impairment

6.2.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Note 29 (for subsidiaries) and Note 32 (for the entities measured using the equity method).

6.2.2.2. Financial instruments measured at amortised cost

Impairment losses on assets held to maturity and loans and receivables are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the effective interest rate determined upon initial recognition (original effective interest rate).

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

Impairment losses on equity instruments listed on regulated markets, units in open-end investment funds and certificates issued by closed-end investment funds classified as available for sale are recognized if at least one of these two conditions is met:

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

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

6.2.2.4. Receivables from policyholders

Receivables from policyholders are reviewed in order to determine possible occurrence of impairment indicators.

Firstly, impairment losses for individual assets are assessed. An impairment loss for individual asset is made for a single account receivable after an evaluation of the economic and financial situation of the debtor and the probability that the amount due will be paid. These receivables are not taken into account in group impairment losses.

As far as accounts receivable from debtors that are in liquidation or bankrupt are concerned, the impairment loss is based on the amount not covered by a guarantee or another security of receivables made known to the liquidator in

case of liquidation or to the Magistrate in Bankruptcy in bankruptcy proceedings. If the debtor saw their bankruptcy petition dismissed and the debtor's assets are not sufficient to satisfy the costs of bankruptcy proceedings, the total value of the account receivable is written-off.

An impairment loss for individual asset is increased when there are indications suggesting that the estimated amount which can be recovered has decreased or that the amount due, for which the impairment loss for individual asset was created – has grown. An impairment loss for individual asset is reversed if it is estimated that the amount which can be recovered exceeds previous estimates or if it has been confirmed that the receivables will be paid partially or in total, or if the amount has been deemed undue. An impairment loss for individual asset is used if the receivables are to be partially or fully remitted or written-off.

Where no case-by-case estimates have been made, the impairment of receivables is assessed on a collective-basis, which provides grounds for a group impairment loss.

Non-life insurance

The group impairment loss is assessed on the basis of the adopted model of a permanent yet individually insignificant impairment assessment. In the model, the impairment loss is determined on the basis of a collective assessment of impairment of receivables due from policyholders grouped according to similar characteristics of the credit risk.

Mature receivables are subject to age analysis, depending on their overdue period. Mature receivables are reduced by the value of the receivables subject to impairment losses for individual assets. The group impairment loss is assessed according to individual overdue periods and on the basis of the unrecoverability ratios of mature receivables that are determined on the basis of a historical analysis.

The value of receivables that will probably become mature on the basis of a historical analysis of the share of overdue receivables is determined for non-mature receivables. The amount determined in this way is reduced by the value of the receivables subject to impairment losses for individual assets. On the basis of the remaining amount of receivables, an impairment loss in the amount of the unrecoverability ratio of mature receivables for the shortest overdue period is determined.

Life insurance

The group impairment loss is assessed for receivables which are not subject to impairment losses for individual assets. Receivables are grouped according to similar credit risk characteristics which indicate the debtor's ability to repay the entire debt. It is also allowed to group receivables according to criteria different than how long they have been overdue, as long as it allows for a more accurate estimate of the value of the group impairment loss. Calculations are carried out separately for each insurance product or groups of insurance products.

The amount of group impairment losses is estimated with the help of models which are created and updated on the basis of data on debt collection in particular groups sharing similar characteristics. Such estimates are created on the basis of historical data concerning defaults on loans and receivables in various categories of overdue-ness.

6.2.3. Assumptions made in estimation of technical provisions for non-life insurance

The final estimated value of claims and benefits paid has been presented in the provision development triangles in Note 8.6.1.1. Methodologies used to calculate the IBNR provision and the old portfolio provision are described in Note 5.17.2.1.

When calculating a provision for capitalized value of annuities, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

Future profitability of the portfolio of investments covering the provision for capitalized value of annuities is calculated as projected profitability of the portfolio of bonds maintained to maturity in line with the prudence principle.

The technical interest rate applied to all annuities was 3.6% both as at 31 December 2014 and 31 December 2013. At the same time, based on the forecast inflation and the pay growth rates, a growth rate of 3.9% was used for annuities both as at 31 December 2014 and 31 December 2013.

As regards life annuities, the period during which annuity claims are paid is determined based on publicly available statistics, such as, for example, the Polish Life Expectancy Tables (PLET), published by the Central Statistical Office in Poland. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

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

The amount of life insurance provision, except for unit-linked provisions, equals to the value of liabilities related to the concluded insurance contracts. It is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method.

This means that provision calculation includes all claims and premiums provided for in the contracts as contractual liabilities and receivables, irrespective of the fact whether the contract will be maintained by the insured until the end of the period or terminated. The assumptions for the frequency of events under insurance coverage, i.e. mortality, incidence proportion and accident rate is determined based on publicly available statistics, such as PLET in Poland, or based on own statistics developed on the basis of historical data for individual classes of products found in the portfolio.

The assumptions used in calculation of life insurance provision are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product (the so-called lock-in assumptions). During preparation of financial statements the adequacy of assumptions is verified.

Incidence of events covered by insurance

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

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

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in Note 8.6.1.2.

6.2.5. Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as described in Note 30) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

Actuarial assumptions

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

Key actuarial assumptions made for calculation of provisions for retirement and death benefits	31 December 2014	31 December 2013
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve ¹⁾	in accordance with the bond yield curve ²⁾
- other PZU Group entities	1.0%-4.5%	2.0%-4.5%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group entities	0.2%-4.3%	1.5%-3.0%
Mortality rate, including:		
- PZU and PZU Życie	PLET ³⁾	PLET ³⁾
- other PZU Group entities	PLET ³⁾	PLET ³⁾
Employee turnover ratio, including:		
- PZU and PZU Życie	specific to company ⁴⁾	specific to company ⁴⁾
- other PZU Group entities	0.0%-10.0% ⁵⁾	0.0%-10.0%
Disability rate (entitlement to a disability pension), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group entities	30%-60% PLET ⁶⁾	30%-60% PLET ⁶⁾

¹⁾ The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2014 covers the period from 2015 to 2045, assuming increasing values for the range until 2033 (1.75%-2.90%) and subsequently becoming an inverted yield curve decreasing to the level of 2.88%.

²⁾ The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU as at 31 December 2013 covers the period from 2014 to 2044, assuming increasing values for the range until 2031 (2.68%-4.87%) and subsequently becoming an inverted yield curve decreasing to the level of 4.61%.

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

⁴⁾ The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and sex. Some PZU Group entities do not take the aforementioned ratio into account.

⁵⁾ In one of the Group's companies, due to a very high employee turnover, the assumed ratio equaled 90.0%.

⁶⁾ The disability rate represents a relevant percentage of the mortality rate described above. Some PZU Group entities do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	31 December 2014		31 December 2013	
	Retirement benefits	Death benefits	Retirement benefits	Death benefits
Discount rates				
- increase by 1 p.p.	(2,124)	(2,629)	(1,505)	(1,953)
- decrease by 1 p.p.	2,652	3,176	1,863	2,328
Projected pay growth rates:				
- increase by 1 p.p.	2,611	3,125	1,866	2,331
- decrease by 1 p.p.	(2,134)	(2,639)	(1,514)	(1,962)
Mortality rate:				
- increase by 10%	(245)	1,978	(164)	1,707
- decrease by 10%	251	(2,022)	167	(1,736)
Employee turnover ratio:				
- increase by 10%	(356)	(620)	(214)	(457)
- decrease by 10%	375	650	224	479

6.2.6. Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, in accordance with IAS 37, taking into account the probability of an outflow of cash, including economic benefits to settle the obligation. Outflow of cash is regarded as

probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

6.2.7. Deferred tax assets and liabilities

PZU Group entities estimated taxable future income taking into account the possibility of realization of negative temporary differences due to a tax loss incurred by these companies. No deferred tax assets concerning unused tax loss were recognised in result of the estimations. Deferred tax assets and liabilities are recognized according to the principles defined in Note 5.22.

7. Segment reporting

7.1 Reporting segments

7.1.1. Key division criterion

IFRS 8 sets out requirements for disclosure of information about an entity operating segments in their annual and interim financial statements. Operating segments are components of the entity for which separate financial information is available and that are regularly reviewed by the entity chief operating decision maker ("CODM", i.e. the Management Board of PZU) in order to allocate resources to the segment and assess its performance.

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

PZU and Link4 segments:

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

PZU Życie segments:

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

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

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

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

7.1.2. Geographical areas

PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltic states;
- Ukraine.

7.2 Settlements among segments

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

7.3 Measure of profit of a segment

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

- in insurance companies registered in Poland – a profit or loss on insurance constituting the profit or loss before tax and other operating income and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended) and based on it regulations (National Accounting Standards, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- in the case of insurance companies registered abroad – as described above, taking into account the total investment performance of the company, i.e. without adjusting the profit on investment described above, calculated in accordance with IFRS;
- in non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

7.4 Segments characteristics

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

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, third party and motor insurance products customized to meet clients' expectations and with individual risk assessment, offered to big enterprises;
- Retail client insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of non-life insurance products, accident insurance products, third party and motor insurance products offered to retail clients and entities in the SME sector;
- Group and individually continued insurance (life insurance) – reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;

- Individual insurance (life insurance) – reporting in accordance with Polish Accounting Standards – insurance offered by PZU to individual clients whereby an insurance contract covers a given individual who is subject to separate risk assessment. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investment – reporting in accordance with Polish Accounting Standards – comprises investment activity conducted with the PZU Group's own funds defined as the surplus of investments over technical provisions in the insurance companies within PZU Group with their registered offices in Poland (PZU, Link4 and PZU Życie) increased by the surplus of investment income exceeding the risk-free rate matching the value of technical provisions of PZU and PZU Życie in insurance products, i.e. the surplus of income from investment activities of PZU and PZU Życie over the income to insurance segments according to transfer prices. Additionally, the "Investments" segment includes income earned on other excess cash in PZU Group;
- Pension insurance – reporting in accordance with Polish Accounting Standards – comprising the company PTE PZU;
- Ukraine (life and non-life insurance) – reporting in accordance with IFRS – including PZU Ukraine and PZU Ukraine Life;
- Baltic states (life and non-life insurance only) – reporting in accordance with IFRS – including Lietuvos Draudimas AB, AAS Balta, PZU Lietuva, UAB PZU Gyvybes Draudimas and their branches in Latvia and Estonia;
- Investment contracts - reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products), described in Note 7.5.2;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "Other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

7.5 Polish Accounting Standards applied

7.5.1. PZU

Polish Accounting Standards and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna 2014, in accordance with PAS, signed by the Management Board on 16 March 2015 ("Separate financial statements of PZU for 2014").

The separate financial statements of PZU for 2014 are available on the PZU website www.pzu.pl, under "Investor Relations".

7.5.2. PZU Życie

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

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU have been presented in Notes 5.11.4, 5.11.5, 5.17.1.2, 5.17.2.2.

The key difference between PAS and IFRS as regards accounting for insurance contracts and investment contracts of PZU is the classification of contracts. In PAS there is no concept of investment contract and as a result all contracts are classified as insurance contracts. According to IFRS, the classification of contracts should follow the guidelines included in IFRS 4 regarding the classification of products as insurance contracts (subject to IFRS 4) or as investment contracts (recognized in accordance with IAS 39). The classification of contracts is described in Note 6.1.2.

7.6 Structure of the segment reporting note and reconciliations

Due to the fact that the profits of segments are measured in accordance with the accounting policies of the country of residence of the PZU Group's company, financial data from segments are disclosed according to several different accounting standards. Moreover, due to significant differences in the formats of management reports submitted to the Management Board of PZU compared to the format of the financial statements prepared under IFRS, two separate reporting formats had to be used: the format of the management reports submitted to the Management Board of PZU (left-hand side of the note) and the format of the financial statements prepared under IFRS (right-hand side of the note).

As a consequence, reconciliation of the totals of revenue and profit or loss of the reportable segments with their consolidated counterparts as required by IFRS 8.28 included in the note is complex and comprises the following stages described in the segment note in the same order as the order of the reconciliation columns:

- Transition from the format of the management reports submitted to the Management Board of PZU to the format of the financial statements prepared under IFRS (the "Differences in presentation" column), resulting in a number of changes in the presentation, including reclassification of other operating income and expenses to items presented under "operating profit (loss)" in accordance with IFRS;
- Reconciliation of differences between the accounting standards used for the presentation of differences in financial data of the segments and IFRS, and separate presentation of the key accounting standards;
- Making consolidation adjustments (since it is the last phase of reconciliation – the adjustments have been presented in the format required under IFRS).

7.7 Simplifications in the segment note

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

- Withdrawal from presentation of information about allocation of all assets and liabilities to individual segments. The reason – there no such documents are prepared or presented to the Management Board of PZU. The key information submitted to the Management Board of PZU is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirements related to capital adequacy ratios and having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- Presentation of the net profit or loss on an investment with a single amount expressed as a difference between realised and unrealised revenue and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- Revenue and expenses other than realised and unrealised investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- Presentation of other operating income and expenses and Borrowing costs of the companies PZU, PZU Życie and Link4 for their operating segments combined (and as a result, not allocating any amounts in this respect to the "investment contracts" segment) – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation;
- Presentation of income tax charges expressed as a single sum of consolidated data – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation.

7.8 Information on key accounts

Due to the nature of operations undertaken by the companies of PZU Group, there are no accounts that would provide 10% or more of total revenues of PZU Group (defined as gross written premium). The note 58.5 presents revenues from 10 biggest business partners of PZU Groups which are state-controlled companies. PZU Group does not recognize different entities controlled by the Polish government as a single client (including government bodies and similar entities on the local, national or international level).

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Statement of Profit or Loss from 1 January 2014 to 31 December 2014	Corporate insurance (property and casualty insurance)	Mass-market insurance (property and casualty)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic States	Investment contracts	Other activity	Presentation differences	Property and financial assets	Investment contracts	Prevention Fund, equalization provision and impairment towards Company's	Consolidation and non-allocated adjustments	Consolidated value	Statement of Profit or Loss from 1 January 2014 to 31 December 2014
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	1 807 349	6 559 511	6 539 082	1 268 637	-	-	173 562	536 498	374 467	-	-	-	(374 467)	-	-	16 884 639	Gross written premiums - external
Gross written premiums - cross-segment	23 794	9 973	-	-	-	-	-	-	-	-	-	-	-	-	(33 767)	-	Gross written premiums - cross-segment
Gross written premiums	1 831 143	6 569 484	6 539 082	1 268 637	-	-	173 562	536 498	374 467	-	-	-	(374 467)	-	(33 767)	16 884 639	
Reinsurers' share in written premium	(226 610)	(62 606)	(4 272)	(122)	-	-	(32 988)	(27 698)	-	-	-	-	-	-	4 384	(349 912)	Reinsurers' share in the written premium
Net written premium	1 604 533	6 506 878	6 534 810	1 268 515	-	-	140 574	508 800	374 467	-	-	-	(374 467)	-	(29 383)	16 534 727	Net written premiums, including:
Changes in unearned premiums and unexpired risks reserves (gross)	(201 832)	37 816	2 242	(1 088)	-	-	(13 076)	(31 528)	14	-	86 015	-	(14)	-	16 094	(105 357)	Changes in unearned premiums and unexpired risks reserves (net)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	59 559	18 311	-	-	-	-	8 423	(278)	-	-	(86 015)	-	-	-	-	-	
Net earned premiums	1 462 260	6 563 005	6 537 052	1 267 427	-	-	135 921	476 994	374 481	-	-	-	(374 481)	-	(13 289)	16 429 370	Net earned premiums
Investment income, including:	136 456	562 821	713 254	326 696	2 823 234	11 639	41 058	14 617	43 550	167 678	(4 841 003)	417 786	12 282	-	(79 304)	350 764	Fee and commission income
Net investment income (external transactions)	136 456	562 821	713 254	326 696	578 923	11 639	41 058	14 617	43 550	167 678	(2 596 692)	-	-	-	-	-	
Net investment income (cross-segment transactions)	-	-	-	-	2 244 311	-	-	-	-	-	(2 244 311)	-	-	-	-	-	
											1 970 605	2 775	-	23	(179 565)	1 793 838	Net investment income (external transactions)
											2 244 311	-	-	-	(2 244 311)	-	Net investment income (cross-segment transactions)
											437 938	(3 914)	-	-	(6 877)	427 147	Net profit/loss on realization and impairment loss on investments
											395 700	49 394	-	-	67 439	512 533	Net change in the fair value of assets and liabilities measured at fair value
Other technical revenue net of reinsurance	37 215	106 596	1 103	48	-	-	-	-	5	-	(144 967)	-	-	-	-	-	
Operating revenues of non-insurance companies	-	-	-	-	-	270 565	-	-	-	443 144	(713 709)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	711	-	-	-	5 916	708 697	(16 180)	-	-	(161 511)	537 633	Other operating revenue
Gross claims and benefits paid	(774 846)	(3 728 363)	(4 513 462)	(658 202)	-	-	(103 247)	(312 758)	(1 389 147)	-	(677 511)	-	376 230	7 413	40 665	(11 733 228)	Claims, benefits and change in technical reserve
Changes in provisions for outstanding claims and benefits (gross)	(315 611)	(693 683)	14 017	19 413	-	-	(1 786)	(21 625)	(2 571)	-	1 001 846	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	28 166	34 380	85	-	-	-	7 208	26 293	-	-	109 225	-	-	-	(13 837)	191 520	Reinsurers' share in claims, benefits and change in technical reserve
Reinsurer's share in change in provisions	98 323	24 254	-	-	-	-	3 477	(4 126)	-	-	(121 928)	-	-	-	-	-	
Net claims and benefits	(963 968)	(4 363 412)	(4 499 360)	(638 789)	-	-	(94 348)	(312 216)	(1 391 718)	-	311 632	-	376 230	7 413	26 828	(11 541 708)	Net claims and benefits
Changes in technical provision net of reinsurance, life insurance provisions where the investment risk is borne by the policyholder, risk equalization provisions	2 427	(9 526)	(70 328)	(611 119)	-	-	-	-	1 015 526	-	(326 980)	-	-	-	-	-	
											-	-	(14 031)	-	-	(14 031)	Benefits and change in measurement of investment contracts
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(2 325)	-	(638)	-	-	-	-	-	(38)	-	3 001	-	-	-	-	-	
Other technical charges net of reinsurance	(39 759)	(220 142)	(21 227)	(1 689)	-	-	-	-	(494)	-	283 311	-	-	-	-	-	
Acquisition costs	(306 347)	(1 238 906)	(356 627)	(126 442)	-	(6 349)	(52 126)	(115 445)	(16 466)	-	-	-	-	818	70 866	(2 147 024)	Acquisition costs
Administrative expenses	(125 050)	(617 450)	(542 974)	(53 381)	-	(72 838)	(28 130)	(80 239)	(9 716)	-	(1)	(2 179)	-	(13 493)	17 752	(1 527 699)	Administrative expenses
Reinsurance commission and share in profits	16 192	(26 506)	1 570	-	-	-	-	-	-	-	8 744	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(415 875)	415 875	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(244)	-	-	-	(25 625)	(936 742)	(3 745)	-	(67 989)	126 605	(907 740)	Other operating expenses
Insurance result / Operating profit (loss)	217 101	756 480	1 761 825	162 751	2 823 234	203 484	2 375	(16 289)	15 130	175 238	234 198	26 151	-	(73 228)	(2 375 367)	3 913 083	Operating profit (loss)
Other operating income	146 808	-	67 856	-	-	-	11 608	7 279	-	-	(233 551)	-	-	-	-	-	
Other operating expenses	(219 894)	-	(34 756)	-	-	-	(4 662)	(23 063)	-	-	282 375	-	-	-	-	-	
Financial costs	-	-	-	-	-	-	-	-	-	(82 944)	(283 020)	-	-	-	146 099	(219 865)	Financial costs
															(1 525)	(1 525)	Share in net profit (loss) of companies measured using the equity method
																3 691 693	Gross profit (loss)
																(724 066)	Income tax
																2 967 627	Net profit (loss)

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Statement of Profit or Loss from 1 January 2013 to 31 December 2013	Corporate insurance (property and casualty insurance)	Mass-market insurance (property and casualty)	Group and individually continued life insurance	Individual life insurance	Investments	Pension insurance	Ukraine	Baltic States	Investment contracts	Other activity	Presentation differences	Property and financial assets	Investment contracts	Prevention Fund, equalization provision and impairment towards Company's Social Benefits Fund	Consolidation and non-allocated adjustments	Consolidated value	Statement of Profit or Loss from 1 January 2013 to 31 December 2013
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premiums - external	1 735 259	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	-	16 480 003	Gross written premiums - external
Gross written premiums - cross-segment	4 898	-	-	-	-	-	-	-	-	-	-	-	-	-	(4 898)	-	Gross written premiums - cross-segment
Gross written premiums	1 740 157	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	(4 898)	16 480 003	
Reinsurers' share in written premium	(160 273)	(43 756)	(2 948)	(58)	-	-	(31 253)	(20 795)	-	-	-	-	-	-	1 946	(257 037)	Reinsurers' share in the written premium
Net written premium	1 579 884	6 489 987	6 412 330	1 329 836	-	-	172 387	241 494	1 097 951	-	-	-	(1 097 951)	-	(2 952)	16 222 966	Net written premiums, including:
Changes in unearned premiums and unexpired risks reserves (gross)	(35 703)	64 717	1 739	946	-	-	(9 036)	(17 606)	606	-	19 631	-	(606)	-	1 115	25 803	Changes in unearned premiums and unexpired risks reserves (net)
Reinsurers' share in changes in unearned premiums and unexpired risks reserves (gross)	11 571	(2 419)	-	-	-	-	7 221	3 258	-	-	(19 631)	-	-	-	-	-	
Net earned premiums	1 555 752	6 552 285	6 414 069	1 330 782	-	-	170 572	227 146	1 098 557	-	-	-	(1 098 557)	-	(1 837)	16 248 769	Net earned premiums
Investment income, including:	140 039	556 759	735 242	321 867	4 858 794	11 580	24 373	6 511	104 495	65 018	340 282	-	18 808	-	(59 921)	299 169	Fee and commission income
Net investment income (external transactions)	140 039	556 759	735 242	321 867	896 372	11 580	24 373	6 511	104 495	65 018	(6 824 678)	-	-	-	-	-	
Net investment income (cross-segment transactions)	-	-	-	-	3 962 422	-	-	-	-	-	(2 862 256)	-	-	-	-	-	
											3 962 422	-	-	-	-	-	
											1 863 272	-	-	-	3 378	1 866 650	Net investment income (external transactions)
											3 962 422	-	-	-	(3 962 422)	-	Net investment income (cross-segment transactions)
											116 995	24 782	-	-	(99 230)	42 547	Net profit/loss on realization and impairment loss on investments
											768 849	(105 879)	-	-	(57 612)	605 358	Net change in the fair value of assets and liabilities measured at fair value
Other technical revenue net of reinsurance	11 522	34 872	1 524	1 867	-	-	-	-	83	-	(49 868)	-	-	-	-	-	
Operating revenues of non-insurance companies	-	-	-	-	-	218 300	-	-	-	400 948	(619 248)	-	-	-	-	-	
Other operating revenue (not applicable to insurance companies)	-	-	-	-	-	3 090	-	-	-	6 002	602 126	(16 189)	-	-	(109 808)	485 221	Other operating revenue
Gross claims and benefits paid	(890 923)	(3 410 960)	(4 290 148)	(609 567)	-	-	(83 190)	(147 070)	(1 334 969)	-	(1 609 046)	-	1 157 463	6 323	16 810	(11 195 277)	Claims, benefits and change in technical reserve
Changes in provisions for outstanding claims and benefits (gross)	(1 959)	(761 742)	(9 526)	(17 034)	-	-	(5 417)	(359)	5 221	-	790 816	-	-	-	-	-	
Reinsurers' share in claims and benefits paid	112 577	154 450	164	-	-	-	2 516	10 829	-	-	(242 600)	-	-	-	(3 883)	34 053	Reinsurers' share in claims, benefits and change in technical reserve
Reinsurer's share in change in provisions	(73 805)	(174 716)	-	-	-	-	5 199	(2 487)	-	-	245 809	-	-	-	-	-	
Net claims and benefits	(854 110)	(4 192 968)	(4 299 510)	(626 601)	-	-	(80 892)	(139 087)	(1 329 748)	-	(815 021)	-	1 157 463	6 323	12 927	(11 161 224)	Net claims and benefits
Changes in technical provision net of reinsurance, life insurance provisions where the investment risk is borne by the policyholder, risk equalization provisions	(5 887)	(436)	(270 964)	(712 390)	-	-	-	-	172 272	-	817 405	-	-	-	-	-	
Bonuses and rebates for the insured net of reinsurance, including change in provisions	(298)	-	(523)	-	-	-	-	-	(4)	-	825	-	(77 715)	-	-	(77 715)	Benefits and change in measurement of investment contracts
Other technical charges net of reinsurance	(47 428)	(261 850)	(108 433)	(12 924)	-	-	-	-	(4 683)	-	435 318	-	-	-	-	-	
Acquisition costs	(300 302)	(1 141 493)	(322 765)	(109 519)	-	(16 776)	(62 446)	(67 137)	(18 318)	-	-	-	-	(126)	22 944	(2 015 938)	Acquisition costs
Administrative expenses	(115 829)	(546 865)	(545 720)	(53 225)	-	(77 923)	(35 904)	(26 490)	(11 377)	-	-	1 131	-	(20 568)	26 290	(1 406 480)	Administrative expenses
Reinsurance commission and share in profits	8 022	66 967	501	-	-	-	-	-	-	-	(75 490)	-	-	-	-	-	
Operating expenses of non-insurance companies	-	-	-	-	-	-	-	-	-	(369 897)	369 897	-	-	-	-	-	
Other operating expenses (insurance companies excluded)	-	-	-	-	-	(839)	-	-	-	(6 519)	(874 683)	(8 946)	-	84 583	100 805	(705 599)	Other operating expenses
Insurance result / Operating profit (loss)	391 481	1 067 271	1 603 421	139 857	4 858 794	137 432	15 703	943	11 277	95 552	18 403	(105 101)	(1)	70 212	(4 124 486)	4 180 758	Operating profit (loss)
Other operating income	65 131	-	14 763	-	-	-	796	3 613	-	-	(84 303)	-	-	-	-	-	
Other operating expenses	(58 067)	-	(50 159)	-	-	-	(874)	(4 075)	-	-	113 175	-	-	-	-	-	
Financial costs	-	-	-	-	-	-	-	-	(57 112)	(47 270)	-	-	-	-	42 718	(61 664)	Financial costs
															1 404	-	Share in net profit (loss) of companies measured using the equity method
																4 120 498	Gross profit (loss)
																(825 543)	Income tax
																3 294 955	Net profit (loss)

2014	Poland	Baltic States	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	16,174,579	536,498	173,562	-	16,884,639
Gross written premiums - cross-segment	26,815	-	-	(26,815)	-
Revenue from commissions and fees	350,764	-	-	-	350,764
Net investment income	1,743,915	10,241	39,682	-	1,793,838
Net result on realization and impairment losses on investments	426,016	1,402	(271)	-	427,147
Net change in the fair value of assets and liabilities measured at fair value	507,904	2,974	1,655	-	512,533
Non-current assets other than financial instruments ¹⁾	1,706,430	160,650	3,887	(666)	1,870,301
Change in deferred tax assets	20,556	5,383	1,018	-	26,957
Assets	67,788,204	1,185,229	224,704	(1,625,376)	67,572,761

¹⁾ Intangible assets and property, plant and equipment

2013	Poland	Baltic States	Ukraine	Non-allocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	16,014,074	262,289	203,640	-	16,480,003
Gross written premiums - cross-segment	2,439	-	-	(2,439)	-
Revenue from commissions and fees	299,169	-	-	-	299,169
Net investment income	1,834,841	7,783	24,026	-	1,866,650
Net result on realization and impairment losses on investments	44,070	(1,905)	382	-	42,547
Net change in the fair value of assets and liabilities measured at fair value	604,745	633	(20)	-	605,358
Non-current assets other than financial instruments ¹⁾	1,216,845	14,125	5,822	(785)	1,236,007
Change in deferred tax assets	15,351	-	1,598	-	16,949
Assets	62,512,606	415,708	259,963	(400,973)	62,787,304

¹⁾ Intangible assets and property, plant and equipment

8. Risk management

8.1 Introduction

Risk management is aimed at:

- increasing the value of PZU Group through active and conscious changes in the level of risk assumed;
- preventing acceptance of risk at a level which could threaten the financial stability of PZU Group.

Risk management in PZU Group is based on risk analysis of all processes and units. Risk management is an integral part of the management process.

The main elements of risk management are consistent for all companies of PZU Group and implemented in a way which ensures the implementation of both strategic plans of individual companies and business objectives of the whole PZU Group. These include i.a.:

- the systems of limits and restrictions of the acceptable risk level, including the level of appetite for risk;
- processes of identifying, measuring and assessing, monitoring and controlling, reporting and managing actions with respect to the individual risks;

- organisational structure of risk management, in which Management Boards and Supervisory Boards of companies as well as dedicated Committees play the key role.

8.2 Description of the risk management system

The risk management system of PZU Group is based on three components:

- organisational structure – including division of responsibilities and tasks performed by statutory bodies, committees as well as individual organisational units in the risk management process;
- the risk management process – including the methods of identification, measurement and assessment, monitoring and control, reporting risk and taking management action.

8.3 Organisational structure

The risk management system organisational structure is consistent in PZU Group and in individual companies and includes four competence levels.

The first three are:

- the Supervisory Board, which supervises the risk management process and assesses its adequacy and effectiveness as part of its decision-making powers defined in the given company's Articles of Association and the Supervisory Board rules and regulations;
- the Management Board, which organizes the risk management system and ensures its functionality through approving the strategy and policies and defining the appetite for risk, the risk profile and tolerance for individual categories of risk;
- Committees which make decisions on reducing individual risks to a level determined by the risk appetite. The Committees implement the procedures and methodologies for mitigating the individual risks and accept individual risk limits.

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

- the first line of defence – ongoing risk management at the business unit and organizational unit level and decision-making as part of the risk management process;
- the second line of defence – denotes risk management by specialised units responsible for risk identification, monitoring and reporting as well as controlling limits;
- the third line of defence – comprises internal audit, which conducts independent audits of the elements of the risk management system, as well as control activities embedded in the activity.

8.4 Risk appetite, risk profile and risk tolerance

The process of determining the risk appetite and limits in line with the group process has been implemented in the PZU Group entities. The Management Board of each company determines the risk appetite, the risk profile and tolerance limits which reflect its strategic plans and objectives of the entire PZU Group.

The risk appetite has been defined as the risk that the company is prepared to accept in pursuit of its business goals. The measure of risk appetite is the level of potential financial loss, decrease in the value of assets or an increase in the value of liabilities in the period of one year. The level of risk appetite for is defined as the minimum capital requirement coverage ratio. The risk appetite determines the maximal level of acceptable risk when setting limits and restrictions for individual partial risks and the level which, when exceeded, results in taking specific management measures necessary to limit further risk growth.

The risk profile involves quantitative limits which define the risk appetite more precisely.

Tolerance limits are additional limits introduced for individual risk types to mitigate the potential risk.

Such an attitude ensures appropriateness and efficiency of the risk management system in PZU Group and prevents risk acceptance at a level which could pose a threat to the financial stability of both individual companies and the entire PZU

Group. The company's Management Board is responsible for determining the appropriate risk level for that company. The risk unit reviews the level risk appetite once a year. All activities are coordinated at the level of the Group.

8.5 Risk identification, measurement, assessment, monitoring and reporting methods

Identification, measurement, evaluation, monitoring and reporting of risk and implemented management actions ensure ongoing adequacy and effectiveness of the risk management system. The risk management process in PZU Group consists of:

- identification – beginning with the proposal to commence the creation of an insurance product, acquire a financial instrument, change the operating process, as well upon the occurrence of any other event which potentially results in a risk. The identification process takes place until the expiry of the liabilities, receivables or activities related to the given risk. Identification of risk consists in the identification of actual and potential sources of risk, which are later analysed in terms of significance;
- measurement and evaluation of risk – depending on the characteristics of the given risk type and the level of its significance. Risk is measured by specialised units. The risk unit in each company is responsible for the development of tools and measurement of risk in terms of risk appetite, risk profile and tolerance limits;
- monitoring and control of risk – consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values as well as recommendations and guidance issued, conducted by dedicated units;
- reporting – it allows for effective communication on risk and supports risk management on various decision-making levels;
- management actions, including i.a. risk avoidance, risk transfer, risk mitigation, determination of risk appetite, risk level acceptance as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

Two levels are distinguished in the risk management process:

- the PZU Group level – it ensures that PZU Group implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in business lines, e.g. collective catastrophe risk, entire exposure of PZU Group to financial risk or counterparty risk. PZU Group ensures support in the implementation of coherent risk management standards and monitors their implementation. Dedicated employees from PZU Group cooperate with Management Boards of the companies and with management of such areas as finance, risk, actuarial, reinsurance, investment;
- the company level – it ensures that the company implements its business objectives in a safe way which is adjusted to the scale of risk involved. This level involves the monitoring of limits and specific types of risk occurring in the given company and implementation of the risk management process at the level of the single company (both in terms of local legal regulations and standards of PZU Group).

8.6 Risk profile

PZU Group risk profile did not change significantly in 2014. The main types of risks incurred by PZU Group include insurance risk, market risk, credit risk, concentration risk, operational risk and compliance risk.

8.6.1. Insurance risk (non-life and life insurance)

Insurance risk is a risk of a loss or an unfavourable change in the value of insurance liabilities, resulting from incorrect assumptions regarding measurement and recognition of provisions.

Insurance risk includes:

	Non-life insurance	Life insurance
Longevity risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,	x	x
Cost risk – a risk of loss or unfavourable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management.	x	x
Laps Risk – a risk of loss or unfavourable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators, including withdrawal from contracts, termination or buyout of policies.	x	x
Catastrophe risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and provisions for extreme or exceptional events.	x	x
Premium risk – a risk of loss or unfavourable changes in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of insured events.	x	n/a
Provision risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of claims paid and their amounts.	x	n/a
Annuity revision risk – a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured.	x	n/a
Mortality risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities.	n/a	x
Disability risk – a risk of loss or unfavourable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases.	n/a	x

PZU Group manages insurance risk i.a. by way of:

- calculating and monitoring the adequacy of technical provisions;
- tariff strategy and monitoring of the current estimates and evaluation of premium adequacy;
- underwriting;
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU Group manages the adequacy risk of technical provisions through application of appropriate calculation technology and control of processes related to determining of provisions. The provisioning policy is based on:

- prudent approach to determining technical provisions,
- continuity principle, consisting in the unchangeability of the methods of technical provisioning, provided there are no significant circumstances which justify introduction of changes.

For non-life insurance, the level of technical provisions is evaluated once a month and in specific circumstances (making a payment, obtaining new information from liquidators or lawyers) their amount is updated. History of development and payments per balance sheet year is used to analyse the amount of technical provisions. The analysis results in assessment of precision of actuarial methods.

For life insurance products, public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. Periodic statistical analyses of claims incidence are made at the level of product groups, individual insurance portfolios and well-defined homogeneous risk groups. These analyses allow determining relative frequency of claims compared to public statistics. The use of appropriate statistical methods allows to determine the significance of the determined statistics. If necessary, determined appropriate security charges are applied when creating technical provisions and risk evaluation.

Estimating of technical provisions in PZU Group is supervised by main actuaries. Furthermore, every year an independent expert performs a separate calculation of provisions for the purpose of verifying the internal results or performs an evaluation of life insurance portfolios as part of the embedded value calculation.

Tariff strategy, monitoring of current estimates and premium adequacy assessment

The purpose of the tariff policy is to ensure an adequate premium level, sufficient to cover the existing and future liabilities arising on concluded policies and expenses. Along with developing a tariff, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are regularly carried out for each insurance type based on, among others, evaluation of the technical result on a product for a given financial year. For selected products, profitability evaluation is carried out based on measurement of insurance portfolios under embedded value calculation. Frequency of analyses is adjusted to the materiality of the product and possible result fluctuation. If the course of insurance is unfavourable, activities are undertaken to restore a defined profitability level, involving adjusting premium tariffs or the insured risk profile through modifying general insurance terms.

Underwriting

As regards corporate customers and SME, a separate underwriting process independent from the sales function is carried out. The process of selling insurance for corporate clients is preceded with an analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system depending on competency scopes and limits granted.

Reinsurance

The objective of the reinsurance program in PZU Group in non-life insurance is to secure its core business by mitigation of catastrophic risk that may negatively impact the financial standing of PZU Group. The task is performed in the form of concluding obligatory contracts with additional facultative reinsurance.

PZU Group limits its risk i.a. by way of:

- non-proportional excess of loss treaties which protect the portfolios against catastrophic losses (e.g. flood, hurricane);
- non-proportional excess of loss treaties which protect property, technical, marine, aviation, TPL and MTPL portfolios against the effects of large, single losses;
- proportional treaties which protects the financial insurance portfolio.

PZU Group has developed its own catastrophic claims model. The results of the model, as well as those produced by third party models, are used to optimize the reinsurance program in terms of protection against catastrophic claims.

8.6.1.1. Exposure to insurance risk in non-life products

Primary cost ratios in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Expense ratio	28.94%	25.94%
Claims ratio, net of reinsurance	66.39%	61.90%
Reinsurer's retention ratio	3.84%	2.93%
Combined ratio	95.32%	87.84%

The expense ratio is calculated by dividing the total acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits by the net premiums earned.

The claims ratio net of reinsurance is calculated by dividing claims and the net change in technical provisions by the net premiums earned.

The reinsurer's retention ratio is calculated by dividing a reinsurer's share in gross written premiums by the gross written premiums.

Combined ratio is defined as the ratio of the total of acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits, claims and changes in net technical provisions to the net earned premiums.

The following tables present development of technical provisions and payments in subsequent financial years.

Claims development in direct property and personal insurance, gross (by financial year)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Provision at the end of the financial year	7,458,401	7,540,570	7,898,097	8,292,721	8,698,661	9,380,501	9,870,123	10,989,024	11,782,567	13,311,566
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	6,915,636	7,300,086	7,697,588	8,382,022	8,560,746	9,680,960	10,298,173	11,285,586	12,241,486	
- calculated two years later	6,814,742	7,286,968	7,833,155	8,409,631	8,855,827	10,192,492	10,752,650	11,958,413		
- calculated three years later	7,013,528	7,436,865	7,852,001	8,757,918	9,346,313	10,718,813	11,589,871			
- calculated four years later	7,113,164	7,443,246	8,140,607	9,215,412	9,874,432	11,574,390				
- calculated five years later	7,119,925	7,661,124	8,599,531	9,723,948	10,712,439					
- calculated six years later	7,307,058	8,102,772	9,076,948	10,558,365						
- calculated seven years later	7,703,019	8,523,330	9,842,325							
- calculated eight years later	8,057,693	9,224,422								
- calculated nine years later	8,707,732									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	8,707,732	9,224,422	9,842,325	10,558,365	10,712,439	11,574,390	11,589,871	11,958,413	12,241,486	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	4,037,917	4,091,129	4,182,939	4,271,913	3,837,143	4,033,634	3,209,619	2,591,660	1,695,817	
Provision recognized in the statement of financial positions	4,669,815	5,133,293	5,659,386	6,286,452	6,875,296	7,540,756	8,380,252	9,366,753	10,545,669	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,249,331)	(1,683,852)	(1,944,228)	(2,265,644)	(2,013,778)	(2,193,889)	(1,719,748)	(969,389)	(458,919)	
The above difference as a percentage of the first year provision	-17%	-22%	-25%	-27%	-23%	-23%	-17%	-9%	-4%	

Claims development in direct property and personal insurance, net of reinsurance (by financial year)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Provision at the end of the financial year	6,246,070	6,356,239	6,916,099	7,433,410	7,972,938	8,639,044	9,304,621	10,413,376	11,453,315	12,813,985
The provision and the total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year):										
- calculated one year later	5,651,285	6,145,931	6,790,822	7,568,099	7,843,760	8,838,330	9,731,139	10,722,247	11,787,321	
- calculated two years later	5,605,428	6,201,722	6,968,715	7,597,785	8,091,605	9,344,945	10,185,213	11,282,329		
- calculated three years later	5,838,544	6,396,354	6,991,045	7,909,625	8,558,410	9,872,521	10,946,654			
- calculated four years later	5,978,990	6,405,273	7,246,292	8,343,715	9,106,236	10,672,033				
- calculated five years later	5,984,459	6,589,073	7,683,193	8,874,588	9,891,566					
- calculated six years later	6,145,804	7,008,662	8,189,106	9,656,518						
- calculated seven years later	6,515,396	7,457,627	8,904,032							
- calculated eight years later	6,882,188	8,108,651								
- calculated nine years later	7,482,106									
Total provision and claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	7,482,106	8,108,651	8,904,032	9,656,518	9,891,566	10,672,033	10,946,654	11,282,329	11,787,321	
The total claim payments (from the end of the first financial year to the end of the current financial year, excluding payments made before the end of the first financial year)	3,018,595	3,183,149	3,453,469	3,587,041	3,236,477	3,377,151	2,837,946	2,264,973	1,638,017	-
Provision recognized in the statement of financial positions	4,463,511	4,925,502	5,450,563	6,069,477	6,655,089	7,294,882	8,108,708	9,017,356	10,149,304	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(1,236,036)	(1,752,412)	(1,987,933)	(2,223,108)	(1,918,628)	(2,032,989)	(1,642,033)	(868,953)	(334,006)	
The above difference as a percentage of the first year provision	-20%	-28%	-29%	-30%	-24%	-24%	-18%	-8%	-3%	

Motor insurance products (MTPL and own damage) account for the major part of PZU portfolio. Both types of insurances are usually concluded for a year, during which a claim must occur to be covered. The own damage insurance is based on a claim-made principle, so it is not a source of uncertainty. It is unlike MTPL, which is an occurrence insurance (there is up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which significantly add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

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

Risk concentration in non-life insurance – flood claims exposure

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2014		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where flood claims constitute 0 to 5% of total claims	Sum insured	3.8%	6.6%	2.5%	1.2%	12.4%	26.5%
	Number of policies	18.6%	5.6%	1.2%	0.3%	0.3%	26.0%
B group regions - where flood claims constitute 5 to 15% of total claims	Sum insured	2.5%	2.8%	1.1%	0.9%	6.4%	13.7%
	Number of policies	12.3%	2.8%	0.5%	0.2%	0.2%	16.0%
C group regions - where flood claims constitute over 15% of total claims	Sum insured	8.2%	12.9%	4.9%	2.4%	31.4%	59.8%
	Number of policies	41.8%	13.0%	2.3%	0.5%	0.4%	58.0%
Total	Sum insured	14.5%	22.3%	8.5%	4.5%	50.2%	100.0%
	Number of policies	72.7%	21.4%	4.0%	1.0%	0.9%	100.0%

Risk concentration in non-life insurance – flood claims exposure as at 31 December 2013		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where flood claims constitute 0 to 5% of total claims	Sum insured	2.3%	2.8%	1.3%	0.7%	8.2%	15.3%
	Number of policies	11.0%	2.7%	0.6%	0.2%	0.2%	14.7%
B group regions - where flood claims constitute 5 to 15% of total claims	Sum insured	3.1%	3.8%	1.7%	1.1%	9.4%	19.1%
	Number of policies	15.5%	3.7%	0.8%	0.2%	0.3%	20.5%
C group regions - where flood claims constitute over 15% of total claims	Sum insured	9.9%	14.5%	5.3%	2.7%	33.2%	65.6%
	Number of policies	47.2%	14.1%	2.4%	0.6%	0.5%	64.8%
Total	Sum insured	15.3%	21.1%	8.3%	4.5%	50.8%	100.0%
	Number of policies	73.7%	20.5%	3.8%	1.0%	1.0%	100.0%

Risk concentration in property and personal insurance - hurricane claims exposure

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2014		Sum Insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where hurricane claims constitute 0 to 5% of total claims	Sum insured	8.9%	15.6%	6.0%	3.0%	38.3%	71.8%
	Number of policies	46.3%	14.5%	2.8%	0.7%	0.8%	65.1%
B group regions - where hurricane claims constitute 5 to 15% of total claims	Sum insured	4.7%	5.8%	2.2%	1.3%	9.8%	23.8%
	Number of policies	22.8%	5.9%	1.0%	0.3%	0.3%	30.3%
C group regions - where hurricane claims constitute over 15% of total claims	Sum insured	0.7%	0.9%	0.3%	0.2%	2.3%	4.4%
	Number of policies	3.5%	0.9%	0.2%	0.0%	0.0%	4.6%
Total	Sum insured	14.3%	22.3%	8.5%	4.5%	50.4%	100.0%
	Number of policies	72.6%	21.3%	4.0%	1.0%	1.1%	100.0%

Risk concentration in non-life insurance – hurricane claims exposure as at 31 December 2013		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
A group regions - where hurricane claims constitute 0 to 5% of total claims	Sum insured	7.9%	11.6%	4.6%	2.3%	26.4%	52.8%
	Number of policies	38.1%	11.2%	2.1%	0.5%	0.5%	52.4%
B group regions - where hurricane claims constitute 5 to 15% of total claims	Sum insured	6.4%	7.9%	3.1%	1.9%	18.8%	38.1%
	Number of policies	30.4%	7.8%	1.4%	0.4%	0.4%	40.4%
C group regions - where hurricane claims constitute over 15% of total claims	Sum insured	1.0%	1.5%	0.6%	0.4%	5.6%	9.1%
	Number of policies	5.3%	1.4%	0.3%	0.1%	0.1%	7.2%
Total	Sum insured	15.3%	21.0%	8.3%	4.6%	50.8%	100.0%
	Number of policies	73.8%	20.4%	3.8%	1.0%	1.0%	100.0%

Risk concentration in non-life insurance: general liability insurance

Risk concentration in property and casualty general liability insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premium in non-life insurance – TPL as at 31 December 2014		Sum insured					Total
		PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
General TPL in personal life and other		15.5%	3.4%	2.5%	2.9%	14.1%	38.4%
Medical TPL		0.6%	1.0%	1.2%	6.4%	33.1%	42.3%
Professional TPL except from medical and agricultural (legal, consulting, etc.)		5.5%	2.9%	1.3%	1.5%	3.7%	14.9%
TPL of farmers and their movable property		0.0%	0.0%	0.0%	4.3%	0.0%	4.3%
Product TPL		0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Total		21.6%	7.3%	5.0%	15.1%	51.0%	100.0%

Gross written premium in non-life insurance – TPL as at 31 December 2013	Sum insured					Total
	PLN '000 0-200	PLN '000 200-500	PLN '000 500-1000	PLN '000 1000-2000	over PLN '000 2000	
General TPL in personal life and other	16.1%	3.3%	2.4%	2.9%	14.2%	38.9%
Medical TPL	0.6%	1.0%	1.2%	6.2%	31.9%	40.9%
Professional TPL except from medical and agricultural (legal, consulting, etc.)	5.7%	3.0%	1.3%	1.2%	3.4%	14.6%
TPL of farmers and their movable property	0.0%	0.0%	0.0%	5.3%	0.0%	5.3%
Product TPL	0.1%	0.0%	0.1%	0.0%	0.1%	0.3%
Total	22.5%	7.3%	5.0%	15.6%	49.6%	100.0%

Capitalised annuity amount

The below results do not take into account the impact of changes in valuation of deposits taken into consideration in the calculation of the provision value.

Change in the assumptions for the provision for capitalised value of annuities amount in non-life insurance - gross (in PLN '000)	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical rate – increase by 0.5 p.p.	426,244	421,951	426,244	421,951
Technical rate – decrease by 1.0 p.p.	(1,101,344)	(1,092,141)	(1,101,344)	(1,092,141)
Mortality at 110% of the currently assumed rate	132,268	129,725	132,268	129,725
Mortality at 90% of the currently assumed rate	(147,984)	(145,112)	(147,984)	(145,112)

Change in the assumptions for the provision for capitalised value of annuities amount - net of reinsurance in property and personal insurance (in PLN '000)	Effect of change in the assumptions on net financial profit/loss		Effect of changes in assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical rate – increase by 0.5 p.p.	415,451	411,121	415,451	411,121
Technical rate – decrease by 1.0 p.p.	(1,073,704)	(1,064,334)	(1,073,704)	(1,064,334)
Mortality at 110% of the currently assumed rate	128,940	126,437	128,940	126,437
Mortality at 90% of the currently assumed rate	(144,263)	(141,438)	(144,263)	(141,438)

8.6.1.2. Exposure to insurance risk in life products

PZU Group has not presented information on the development of claims in life insurance due to the fact that the uncertainty regarding amounts and claim payment periods usually stops within one year.

Risk concentration in this group is related to the concentration of contracts or sums insured. For traditional individual insurance products, where risk of concentration is related to occurrence probability of the covered event or to potential claims amounts arising on a single event, risk assessment is based on case by case approach. The assessment includes both medical risk and – in justified cases – financial risk. Such an approach allows selection of risks (evaluation of an individual concluding an insurance contract) and defining of the maximum acceptable risk level.

In group products, concentration risk occurrence is limited by the contract portfolio size. This allows for significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract, under which all the insured have the same sum insured and coverage is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In the case of group insurance contracts, allowing adjusting of coverage at the level of each group of contracts, a simplified risk assessment is applied. It is carried out on the basis of information about the industry of a given employer, assuming appropriate participation limits of the insured in respect of all persons employed in the workplace. In such cases, premium and charges are based on statistical analyses carried out in relation to the frequency of claims on the level of defined homogeneous risk groups, including relative frequency of events compared to public statistics.

It should be noted that for most contracts, the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio	Effect of change in the assumptions on the net financial profit/loss		Effect of change in the assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical interest rate – decrease by 1 p.p.	(34,259)	(36,080)	(34,259)	(36,080)
Mortality at 90% of the currently assumed rate	(12,318)	(12,539)	(12,318)	(12,539)

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

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products	Effect of change in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Technical interest rate – decrease by 1.0 p.p.	(2,194,319)	(2,221,496)	(2,194,319)	(2,221,496)
Mortality at 110% of the currently assumed rate	(922,805)	(937,246)	(922,805)	(937,246)
110% morbidity and accident rate	(187,082)	(194,624)	(187,082)	(194,624)

Effects of clients' withdrawing from life insurance products

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

Item in financial statements	31 December 2014	31 December 2013
Change in technical provisions	2,093,927	2,025,688
Claims and benefits paid	(782,563)	(725,871)
Change in deferred acquisition costs	(6,256)	(5,943)
Gross financial profit/loss	1,305,109	1,293,874
Net financial profit/loss	1,057,138	1,048,038
Equity	1,057,138	1,048,038

8.6.2. Market risk

Market risk is a risk of a loss or an unfavourable change in the financial position, resulting directly or indirectly from changes in the level or volatility of market prices of assets, liabilities and financial instruments.

Market risk in PZU Group includes:

- **equity instruments price risk** – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices of shares or their volatility;
- **property price risk** – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;

- **goods price risk** – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in market prices or their volatility;
- **inflation risk** – a possibility of incurring a loss resulting from inflation, in particular inflation of goods and services prices, as well as expectations regarding the future inflation level which impact valuation of assets and liabilities;
- **liquidity risk** – the inability to realise investments and other assets with no impact on their market prices in order to settle one's financial liabilities when they fall due;
- **interest rate risk** – a possibility of incurring a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term of structure of market interest rates or volatility of these risk-free rates;
- **basis risk** – a possibility to incur a loss following changes in the value of financial instruments or assets and fluctuations in the present value of projected cash flows on liabilities following changes in term structure of market interest rate spreads as compared to risk-free rates or volatility of these spreads - with the exception of credit spreads;
- **currency risk** – a possibility of incurring a loss following changes in the value of assets, liabilities and financial instruments as a result of changes in exchange rates or their volatility.

Market risk in PZU Group originates from two key sources:

- matching of assets and liabilities (ALM portfolio);
- strategic allocation of assets, i.e. determining of an optimum medium-term structure of assets (AA portfolios).

The investment activity in the PZU Group entities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Departments of risk management take part in the risk identification process, measure those risks, monitor and report those risks. Market risk is measured by the Value at Risk method. The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. In order to effectively manage market risk, limits in form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined.

Market risk exposure

Carrying amount as at 31 December 2014	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		48,991,002	1,557,038	50,548,040
Fixed interest debt instruments	33.1,33.2, 33.3,33.4	30,686,636	1,368,931	32,055,567
Floating interest debt instruments	33.1,33.2, 33.3,33.4	5,851,652	105,969	5,957,621
Term deposits at credit institutions	33.4	6,061,643	82,138	6,143,781
Loans and receivables	33.4	2,309,972	-	2,309,972
Cash	42	324,007	-	324,007
Buy sell-back transactions	33.4	3,250,173	-	3,250,173
Derivatives	33.3	506,919	-	506,919
Financial assets exposed to other price risk		3,110,178	3,422,151	6,532,329
Shares listed on a regulated market	33.2, 33.3	2,831,054	532,352	3,363,406 ¹⁾
Participation units and certificates in investment funds	33.2, 33.3	239,640	2,889,799	3,129,439 ²⁾
Derivatives	33.3	39,484	-	39,484
Total		52,101,180	4,979,189	57,080,369

¹⁾ Difference of the values presented as equity instruments listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 10,529 thousand regards listed units and investment certificates in the line below.

²⁾ Difference of the values presented as equity instruments not listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 10,073 thousand regards listed units and investment certificates (PLN 10,529 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 456 thousand).

Carrying amount of financial assets and liabilities held for sale	Note 43	31 December 2014
Financial assets and cash exposed to interest rate risk		314,284
Fixed interest debt securities		217,852
Term deposits with credit institutions		88,085
Cash		8,347
Financial assets exposed to other price risk		36,702
Equity instruments listed on the regulated market		16,366
Participation units and investment certificates in investment funds		20,336
Total		350,986

Carrying amount as at 31 December 2013	Note	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets and cash exposed to interest rate risk		47,671,217	1,630,915	49,302,132
Fixed interest debt instruments	33.1,33.2, 33.3,33.4	30,133,778	1,450,292	31,584,070
Floating interest debt instruments	33.1,33.2, 33.3,33.4	4,521,641	99,512	4,621,153
Term deposits at credit institutions	33.4	7,305,896	81,111	7,387,007
Loans and receivables	33.4	1,722,208	-	1,722,208
Cash	42	569,157	-	569,157
Buy sell-back transactions	33.4	3,203,344	-	3,203,344
Derivatives	33.3	215,193	-	215,193
Financial assets exposed to other price risk		3,220,389	3,129,095	6,349,484
Shares listed on the regulated market	33.2, 33.3	3,109,602	576,046	3,685,648 ¹⁾
Participation units and certificates in investment funds	33.2, 33.3	65,937	2,553,049	2,618,986 ²⁾
Derivatives	33.3	44,850	-	44,850
Total		50,891,606	4,760,010	55,651,616

¹⁾ The difference to the values presented as equity instruments listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 5,305 thousand regards listed units and investment certificates in the line below.

²⁾ The difference to the values presented as equity instruments not listed on the regulated market in notes 33.2 and 33.3 amounting to PLN 5,251 thousand regards listed units and investment certificates (PLN 5,305 thousand) and non-listed equity instruments other than units and investment certificates not included in that item (PLN 54 thousand).

In its investing activities PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks. In 2014 and 2013, the PZU Group's derivatives comprised interest rate and FX swaps and forwards, stock index futures and bond futures. All the derivatives held by PZU Group are classified as financial instruments held for trading.

The table below presents the PZU Group's derivatives as at 31 December 2014 and 31 December 2013.

Interest rate derivatives	Base amount by maturity as at 31 December 2014					Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC, including:	5,316,874	12,300,000	27,874,630	5,145,782	50,637,286	506,919	556,426
- futures	2,500,000	5,400,000	-	-	7,900,000	7,203	5,735
- SWAP transactions	2,816,874	6,900,000	27,874,630	5,145,782	42,737,286	499,716	550,691
Interest rate derivatives, total	5,316,874	12,300,000	27,874,630	5,145,782	50,637,286	506,919	556,426

Interest rate derivatives	Base amount by maturity as at 31 December 2013					Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC, including:	-	7,556,300	32,931,873	9,334,465	49,822,638	215,193	237,117
- FRA transactions	-	300,000	2,250,000	-	2,550,000	1,142	1,986
- SWAP transactions	-	7,256,300	30,681,873	9,334,465	47,272,638	214,051	235,131
Interest rate derivatives, total	-	7,556,300	32,931,873	9,334,465	49,822,638	215,193	237,117

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on a regulated market, including:	-	620,808	1,030,540	1,651,348	-	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
OTC instruments, including:	8,262,468	50,000	-	8,312,468	14,975	48,266
- futures	423,422	-	-	423,422	720	15,633
- SWAP transactions	7,839,046	-	-	7,839,046	13,016	32,633
- call options	-	25,000	-	25,000	994	-
- put options	-	25,000	-	25,000	245	-
Total derivatives linked to currency exchange rates	8,262,468	670,808	1,030,540	9,963,816	14,975	57,782

Derivatives linked to currency exchange rates	Base amount by maturity as at 31 December 2013			Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Total		
OTC instruments, including:	1,505,938	344,873	1,850,811	22,492	632
- FRA transactions	341,136	344,873	686,009	5,592	-
- SWAP transactions	1,164,802	-	1,164,802	16,900	632
Total derivatives linked to currency exchange rates	1,505,938	344,873	1,850,811	22,492	632

Security price derivatives	Base amount by maturity as at 31 December 2014				Assets at fair value as at 31 December 2014	Liabilities at fair value as at 31 December 2014
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on a regulated market, including:	-	620,840	1,030,540	1,651,380	1,843	9,516
- futures	-	620,808	1,030,540	1,651,348	-	9,516
- call options	-	32	-	32	1,843	-
OTC instruments, including:	215,110	102,539	365,732	683,381	22,666	2,120
- futures	153,443	-	-	153,443	-	2,120
- call options	61,667	102,539	365,732	529,938	22,666	-
Security price derivatives, total	215,110	723,379	1,396,272	2,334,761	24,509	11,636

Security price derivatives	Base amount by maturity as at 31 December 2013				Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Total		
Instruments listed on a regulated market, including:	530,634	-	-	530,634	5,080	-
- futures	530,634	-	-	530,634	5,080	-
OTC instruments, including:	41,994	73,032	384,894	499,920	17,278	-
- call options	26,234	73,032	384,894	484,160	17,034	-
- forward transactions	15,760	-	-	15,760	244	-
Security price derivatives, total	572,628	73,032	384,894	1,030,554	22,358	-

Risk concentration

	as at 31 December 2014 (in PLN '000)	31 December 2014 (% financial asset value)	as at 31 December 2013 (in PLN '000)	31 December 2013 (% financial asset value)
Involvement in treasury instruments issued and guaranteed by the Polish State Treasury and buy sell- back transactions on these instruments	36,161,177	63.7%	34,789,026	63.2%
PZU Group's involvement in shares listed on the Warsaw Stock Exchange	2,713,587	4.8%	3,006,599	5.5%
Involvement in assets related to one bank (PKO BP SA - bank deposits, debt instruments and shares of that bank)	1,953,044	3.4%	2,341,320	4.3%
General involvement bank assets - bank deposits, debt instruments issued by banks, shares of banks and derivative transactions concluded with banks	13,201,504	23.3%	10,153,416	18.4%
Involvement in financial assets denominated in Polish zloty	52,678,740	92.8%	51,487,201	93.5%
Investments where the investment risk is borne by the policyholder	4,979,189	8.8%	4,760,010	8.6%

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

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

Debt instruments issued by treasuries other than the Polish Treasury

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

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

As at 31 December 2013	Currency	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
Croatia	EUR	at fair value	142	143	143	-
Croatia	USD	at fair value	50,038	48,677	48,677	-
Iceland	USD	at fair value	88,150	84,365	84,365	-
Lithuania	EUR	at fair value	1,888	1,992	1,992	-
Lithuania	LTL	at fair value	3,255	3,351	3,351	-
Lithuania	USD	at fair value	14,354	14,893	14,893	-
Lithuania	EUR	at amortised cost	74,206	75,835	79,247	-
Lithuania	LTL	at amortised cost	81,242	82,012	84,393	-
Latvia	USD	at fair value	35,960	33,737	33,737	-
Germany	EUR	at fair value	129,700	126,939	126,939	-
Romania	EUR	at fair value	371,772	381,138	381,138	-
Romania	RON	at fair value	108,132	108,686	108,686	-
Romania	USD	at fair value	27,985	27,856	27,856	-
Slovenia	EUR	at fair value	389,175	443,084	443,084	-
Slovenia	USD	at fair value	138,259	134,090	134,090	-
Ukraine	USD	at fair value	12,678	10,933	10,933	-
Ukraine	UAH	at amortised cost	25,095 ¹⁾	14,556 ¹⁾	n/a	-
Ukraine	USD	at amortised cost	17,070	15,665	n/a	-
Hungary	EUR	at fair value	125,401	136,097	136,097	-
Hungary	EUR	at amortised cost	5,124	5,324	5,420	-
Turkey	TRL	at fair value	45,746	41,963	41,963	-
other	EUR/USD	at fair value	57,363	59,068	59,068	-
Total			1,802,735	1,850,404	n/a	-

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

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

Debt instruments issued by companies and local government authorities.

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

As at 31 December 2013	Valuation method	Cost	Carrying amount	Fair value	Impairment loss
WIG index companies – Banks	at fair value	138,661	140,340	140,340	-
	at amortized cost	1,336,121	1,349,381	n/a	-
WIG index companies - Fuels	at fair value	268,489	283,249	283,249	-
	at amortized cost	700,000	700,816	n/a	-
Domestic banks not listed	at amortized cost	65,000	66,227	n/a	-
Foreign banks	at fair value	552	634	634	-
	at amortized cost	90,548	92,296	n/a	-
Local governments	at fair value	45,632	54,279	54,279	-
	at amortized cost	50,000	52,507	n/a	-
Other	at fair value	5,154	5,573	5,573	-
	at amortized cost	23,657	23,835	22,408	-
Other impaired	at fair value	11,630	-	-	11,630
Other impaired foreign banks	at amortized cost	1,142	-	-	1,142
Total		2,736,586	2,769,137	n/a	12,772

8.6.2.1. Interest rate risk

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 b.p.	125,668	223,086	432,701	464,288
Market interest rate increase by 100 b.p.	(138,436)	(219,307)	(403,257)	(434,618)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance and investment contract liabilities. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 8.6.1.

8.6.2.2. Currency risk

Degree of risk exposure

Information regarding exposure to currency risk by class of financial instruments is presented in item 16.

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	6,052	118,583	18,669	82,775
20% decrease in FX to PLN rates	(6,052) ¹⁾	(118,583) ¹⁾	(18,669)	(82,775)

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

Financial assets exposed to FX risk include deposit transactions and debt instruments that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE, participation units and investment certificates of investment funds, to derivatives denominated in foreign currencies, as well as financial assets of foreign companies included in consolidation.

8.6.2.3. Equity instruments price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in items 16.2 and 16.3 respectively.

Sensitivity analysis

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

Change in portfolio value (in PLN '000)	31 December 2014		31 December 2013	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
increase in measurement of listed equity instruments by 20%	345,885	561,156	395,590	455,567
decrease in measurement of listed equity instruments by 20%	(345,885)	(561,156)	(395,590)	(455,567)

8.6.2.4. Liquidity risk

Financial liquidity risk of the PZU Group may result from three types of events:

- shortages of liquid funds in ongoing operations;
- illiquidity of financial instruments;
- a structural gap between the maturity of assets and liabilities.

In the liquidity risk management process, liquidity is controlled in the short, medium and long term, i.e.:

- short-term liquidity – the balance of funds in the liquidity and currency portfolios is held as not greater than the limit defined. Furthermore, conditional sell buy-back transactions are used in liquidity management;
- medium-term liquidity – PZU and PZU Życie hold adequate liquid investments portfolios;
- long-term liquidity and structural mismatch between the maturity of assets and liabilities – Asset Liability Management (ALM), i.e. matching of the structure of financial investments which cover technical provisions to the nature of such provisions is applied.

Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavourable economic conditions. The level of liquidity risk is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyses, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

Degree of risk exposure

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

For the purpose of the analysis the adjustments of cash flows presented in tables on following pages and engagement of PZU Group in investment funds (units and investment certificates) were not consolidated. This means that they are presented as units and investment certificates rather than assets held by the funds. Such an attitude reflects the liquidity

management perspective and ensures coverage of technical provisions with assets at the level of given companies, taking into account statutory limits for type concentration of those assets.

Non-life insurance

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

Item	Projected cash flows				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(1,647,787)	(1,176,099)	(1,752,775)	(5,163,674)	(11,243,357)
I. Outflows	(1,678,327)	(1,192,951)	(1,770,576)	(5,206,545)	(11,337,138)
II. Inflows	30,540	16,852	17,801	42,871	93,781
B. Inflows from assets covering technical provisions	4,038,705	1,372,188	1,917,156	5,629,030	11,786,596
I. Future inflows whose value is known as at the end of reporting year	4,014,383	441,151	1,339,895	4,374,964	5,269,161
- Treasury bonds	1,229,660	164,105	1,040,255	3,310,581	5,073,670
- Other debt securities	8,278	26,758	135,119	589,475	72,252
- Term deposits with credit institutions	1,529,722	63,253	22,789	-	-
- Loans	662,658	24,177	2,725	282,813	70,710
- Receivables	558,975	87,889	48,853	4,676	-
- Other	25,090	74,969	90,154	187,419	52,529
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	10,258	930,871	576,511	1,253,265	6,441,014
- Treasury bonds	-	-	25,354	374,974	358,926
- Other debt securities	8,530	-	18,772	10,927	1,482
- Loans and receivables	38	314	638	3,276	193
- Shares listed on a regulated market	1,690	-	-	-	10,485
- Shares not listed on a regulated market	-	-	-	-	30
- Investment fund units	-	930,557	531,747	864,088	4,320,442
- Investment certificates	-	-	-	-	1,749,456
III. Inflows from other assets	14,064	166	750	801	76,421
C. Balance of projected cash flows (A + B)	2,390,918	196,089	164,381	465,356	543,239
D. Balance of accumulated cash flows	2,390,918	2,587,007	2,751,388	3,216,744	3,759,983

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

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance was 2.9 (4.9 in 2013), whereas the duration of technical provisions was 5.8 (5.1 in 2013).

Life insurance

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

Item	Projected cash flows					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(838,189)	(380,932)	(1,252,388)	(1,254,326)	(3,597,926)	(5,630,259)
I. Outflows	(1,680,214)	(1,196,287)	(6,916,352)	(6,650,475)	(10,396,779)	(9,640,084)
II. Inflows	842,025	815,355	5,663,964	5,396,149	6,798,853	4,009,825
B. Inflows from assets covering technical provisions	1,948,026	2,772,638	6,034,370	7,994,242	3,705,617	5,544,570
I. Future inflows whose value is known as at the end of reporting year	1,891,087	2,768,796	6,015,453	6,356,417	3,705,617	1,777,285
- Treasury bonds	1,108,501	2,411,170	5,528,852	6,255,333	3,705,617	1,777,285
- Other debt securities	8,066	5,710	159,352	13,256	-	-
- Term deposits with credit institutions	677,655	99,639	207,341	-	-	-
- Loans	96,865	252,277	119,908	87,828	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	56,939	3,842	18,917	1,637,825	-	3,767,285
- Treasury bonds	24,868	80	2,021	-	-	-
- Other debt securities	2,195	1,265	7,055	-	-	-
- Deposits with credit institutions	28,215	663	-	-	-	-
- Loans and receivables	1,661	1,834	9,841	2,000	-	-
- Investment fund units	-	-	-	-	-	3,767,285
- Investment certificates	-	-	-	1,635,825	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	1,109,837	2,391,706	4,781,982	6,739,916	107,691	(85,689)
D. Balance of accumulated cash flows	1,109,837	3,501,543	8,283,525	15,023,441	15,131,132	15,045,443

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

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance was 4.9 (5.5 in 2013), whereas the duration of technical provisions was 22.4 (21.1 in 2013).

8.6.3. Credit risk and concentration risk

Credit risk - a risk of a loss or an unfavourable change in the financial position, resulting from changes in the creditworthiness of issuers of securities, business partners and any debtors.

Credit risk in PZU Group includes:

- **credit spread risk** – the sensitivity of the value of assets, liabilities and financial instruments to changes in the level of credit spreads with regard to the time structure instruments issued by the State Treasury or their volatility;
- **counterparty default risk** - the risk of losses due to a counterparties' and debtors' failure to meet their obligations;

- **credit risk in financial insurance** – credit risk arising from activity in the financial insurance sector, related primarily to the danger of the client's company, the debtor's or the borrower's failure to meet obligations towards a third party; this risk may result from unsuccessful venture implementation or the economic environment's unfavourable impact.

Concentration risk – a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities, business partners or debtor.

Exposure to credit risk in PZU Group arises directly from investment, financial insurance and guarantee, reinsurance and bancassurance related activities. PZU Group distinguishes three types of credit risk exposure:

- bankruptcy of an issuer of financial instruments (e.g. corporate bonds) in which PZU Group invests, or which it trades, e.g. corporate bonds;
- risk of a contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities;
- risk of a PZU Group client's failure to meet its obligations to a third party, e.g. insurance of monetary receivables, insurance guarantees.

Investment activity

The principles of credit risk management in PZU Group regarding risk arising from investing activities is regulated in a number of documents approved by the Supervisory Boards, the Management Boards and dedicated Committees.

Credit and concentration risk limits are set by dedicated Committees.

Limits for banks and other issuers of debt securities are determined based on the level of exposure. The exposure limits are regarded with reference to a single entity or capital group (both credit limits and concentration limits). The use of credit and concentration risk limits is being monitored. Exceeding the limit results in obligation to prepare and submit a plan to reduce exposure.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type). Ratings are based on a quantitative and qualitative analysis and provide the basis for determining the limits. The ratings are updated for credit quality monitoring purposes.

Degree of risk exposure

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

Reports presenting assets exposed to credit risk does not include receivables, including insurance receivables. This was due to significant dispersion of the portfolio of assets, resulting in, among others, a significant share of receivables from small enterprises and retail clients who do not have ratings.

Assets exposed to credit risk as at 31 December 2014	Note	AAA	AA	A	BBB	BB	No rating	Assets at the customer's risk	Total
Debt securities	33.1	-	-	33,685,106	2,415,765	310,188	127,229	1,474,900	38,013,188
- held to maturity	33.1	-	-	19,933,317	50,372	-	-	-	19,983,689
- available for sale	33.2	-	-	2,141,329	261,139	-	32,397	-	2,434,865
- measured at fair value	33.3	-	-	10,533,633	326,441	208,738	60,367	1,474,900	12,604,079
- loans and receivables	33.4	-	-	1,076,827	1,777,813	101,450	34,465	-	2,990,555
Bank deposits and repo transactions involving treasury securities	33.4	-	-	7,195,733	1,746,022	-	370,061	82,138	9,393,954
Other loans	33.4	-	-	-	-	256,763	2,053,209	-	2,309,972
Derivative instruments	33.3	574	14,725	516,252	3,073	-	11,779	-	546,403
Reinsurers' share in net outstanding claims provisions	35	-	208,856	174,539	12,175	-	55,372	-	450,942
Reinsurance receivables	34	-	5,308	12,730	491	-	10,153	-	28,682
Assets held for sale		-	-	305,937	-	-	-	-	305,937
Debt securities	43	-	-	217,852	-	-	-	-	217,852
Bank deposits	43	-	-	88,085	-	-	-	-	88,085
Total assets exposed to credit risk		574	228,889	41,890,297	4,177,526	566,951	2,627,803	1,557,038	51,049,078

Assets exposed to credit risk as at 31 December 2013	Note	AAA	AA	A	BBB	BB	No rating	Assets at the client's risk	Total
Debt securities		128,757	7,648	31,702,962	1,958,877	720,342	136,832	1,549,805	36,205,223
- held to maturity	33.1	-	-	18,604,202	165,926	12,913	76,861	-	18,859,902
- available for sale	33.2	126,939	-	1,117,344	22,909	243,965	-	-	1,511,157
- measured at fair value	33.3	-	658	11,148,733	566,749	421,680	57,647	1,549,805	13,745,272
- loans and receivables	33.4	1,818	6,990	832,683	1,203,293	41,784	2,324	-	2,088,892
Bank deposits and repo transactions involving treasury securities	33.4	26,854	43,956	4,737,001	4,070,651	1,605,745	25,033	81,111	10,590,351
Other loans	33.4	-	-	-	305,164	95,142	1,321,902	-	1,722,208
Derivative instruments	33.3	22,114	21,834	136,028	40,759	36	39,272	-	260,043
Reinsurers' share in net claim provisions	35	-	125,409	125,504	16,666	-	48,976	-	316,555
Deposits with ceding undertakings	33.4	-	87	-	-	-	-	-	87
Reinsurance receivables	34	-	751	3,938	655	-	13,484	-	18,828
Total		177,725	199,685	36,705,433	6,392,772	2,421,265	1,585,499	1,630,916	49,113,295

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

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating ¹⁾
Ratio (%) for 2014	0.74	0.84	1.59	4.33	14.39	26.97
Ratio (%) for 2013	0.76	0.88	1.65	4.59	15.09	27.84

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

The credit risk, to which PZU Group was exposed as at 31 December 2014 amounted to PLN 1,639,172 thousand (PLN 1,708,948 thousand as at 31 December 2013; after applying the coefficients of 31 December 2014, the risk would amount to PLN 1,639,445 thousand).

Risk related to financial insurance (i.a. credit insurance, surety insurance, guarantees)

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees) results from the possibility that a client defaults under an agreement with a third party.

As regards risks assumed by the Company, the risk appetite is determined by a relevant committee, which approves the threshold exposure to credit risk by exposure type, portfolio, product lines, local PZU offices as well as individual risks and the capital group.

A control function in terms of risk monitoring which is independent from the sales function is established at three levels:

- level I – individual level – measurement of risk of financial insurance (i.a. underwriting);
- level II – portfolio level – analysis of changes in the exposure value, level of claims related to the portfolio as well as analysis of concentration and exposure to one entity and capital group. Information about the level of risk in the portfolio is transferred and aggregated in order to monitor the overall exposure of PZU Group;
- level III – relevant committee.

Degree of risk exposure

As at 31 December 2014, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,673 million (PLN 2,410 million as at 31 December 2013).

Reinsurance (from the credit risk perspective of the reinsurer)

PZU Group enters into proportional and non-proportional reinsurance contracts with the objective to reduce liabilities arising from its core business. Reinsurance is exposed to credit risk arising from reinsurers' default on their obligations.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources, e.g. S&P, as well as using an internal model. The model divides reinsurers into several groups, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyses are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried out.

The tables below present the credit risk of reinsurers being parties to transactions concluded by PZU Group entities.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2014	Rating assigned by Standard&Poor's as at 31 December 2014
Reinsurer 1	69,490	AA-
Reinsurer 2	50,938	AA-
Reinsurer 3	50,069	A+
Reinsurer 4	46,689	AA-
Reinsurer 5	45,389	AA-
Reinsurer 6	25,556	AA-
Reinsurer 7	20,969	A+
Reinsurer 8	19,689	A+
Reinsurer 9	16,185	BBB+
Reinsurer 10	15,355	no rating
Reinsurer 11	14,803	AA
Reinsurer 12	14,549	A+
Reinsurer 13	14,125	A+
Reinsurer 14	13,603	AA-
Reinsurer 15	12,349	A+
Reinsurer 16	11,126	AA+
Reinsurer 17	10,592	no rating
Reinsurer 18	10,369	AA+
Reinsurer 19	9,736	A
Reinsurer 20	9,183	no rating
Others ¹⁾	292,215	
Total ²⁾	772,979	

¹⁾ "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

²⁾ PLN 753,115 thousand was reported in the consolidated statement of financial position in "Reinsurers' share in technical provisions", and PLN 19,864 thousand was reported in 'assets held for sale'. Additional information concerning assets held for sale has been presented in 43.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2013	Rating assigned by Standard&Poor's as at 31 December 2013
Reinsurer 1	59,295	AA-
Reinsurer 2	36,135	AA-
Reinsurer 21	35,419	no rating
Reinsurer 6	27,678	AA-
Reinsurer 4	24,579	AA-
Reinsurer 8	18,445	A+
Reinsurer 9	17,141	BBB+
Reinsurer 7	14,669	A+
Reinsurer 22	13,979	no rating
Reinsurer 10	13,465	no rating
Reinsurer 5	13,099	AA-
Reinsurer 13	10,412	A+
Reinsurer 16	9,483	AA+
Reinsurer 23	8,499	no rating
Reinsurer 20	7,223	no rating
Reinsurer 3	6,830	A
Others ¹⁾	210,254	
Total	526,605	

¹⁾ "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

8.6.4. Operational risk

Operational risk is a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

The objective of operational risk management is to optimize the level of operational risk and operating effectiveness in the PZU Group's operations, leading to a reduction of losses and costs arising from such risks and ensuring adequate and effective control mechanisms. Operational risk management complies with defined guidelines which take into account external conditions and gathered information on the level of operational risk are reported to relevant internal authorities periodically.

8.6.5. Compliance risk

Compliance risk is a risk of legal sanctions, financial loss or loss of reputation or credibility resulting from failure to comply by the Company's employees or entities acting on its behalf with the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards.

Internal regulations impose a division of duties regarding on-going and system management of non-compliance risk.

System management consists in particular of formulating solutions ensuring that the rules of compliance risk management are followed, monitoring compliance risk management and promoting and monitoring compliance of internal standards and approved compliance procedures.

Ongoing compliance risk management consists in identification, assessment and measurement as well as ensuring satisfaction of regulatory requirements.

9. Capital management

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

9.1 Capital policy

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

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

9.2 Dividend policy

On 13 May 2014, the Management Board of PZU decided to update the capital and dividend Policy of PZU Group for the years 2013-2015 ("Policy"). At the same time, the Management Board of PZU decided to file a request to the Supervisory Board of PZU to adopt a resolution to approve the update of the Policy. In accordance with the request, on 13 May 2014, the Supervisory Board of PZU approved the updated Policy with the wording prepared by the Management Board.

Due to the uncertainty existing at the time of adopting the current Policy concerning the profit and loss of PZU Group in 2013, as well as the implementation of acquisition plans, the Policy does not specify the proceedings in a case the safety indicators are met, despite the lack of subordinated debt issue.

Due to the fact that PZU Group's financial results for 2013 were higher than expected and the current and projected safety indicators will be no lower than the ones assumed in the Policy, amendments have been made to the Policy, under which the advance paid on 19 November 2013 towards the dividend expected at the end of the financial year 2013 was considered as part of the payment from the capital surplus.

9.3 External capital requirements

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

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

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

The principles of calculating own funds to cover the solvency margin are specified in the Insurance Activity Act and the principles for calculation of the required solvency margin and the minimum value of the guarantee capital have been laid down in the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee capital for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060 with subsequent amendments, the "Solvency Margin Ordinance").

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

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

Calculation of own funds to cover the required solvency margin	31 December 2014	31 December 2013
PZU equity	12,328,724	12,259,761
Intangible assets	(283,999)	(244,582)
Value of assets used to finance equity of other insurance companies operating within the insurance capital group of PZU	(6,065,985)	(4,565,872)
Deferred tax assets	(408,388)	(347,521)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	2,411,116	2,403,826
PZU Życie SA 100.00%	2,213,301	2,407,872
Own funds	3,996,487	4,184,609
Required solvency margin	1,783,186	1,776,737
Surplus/shortage of own funds to cover the required solvency margin	2,213,301	2,407,872
Link4 SA 100.00%	55,638	n/a
Own funds	124,938	n/a
Required solvency margin	69,300	n/a
Surplus/shortage of own funds to cover the required solvency margin	55,638	n/a
Lietuvos Draudimas AB 99.98%	127,853	n/a
Own funds	214,515	n/a
Required solvency margin	86,636	n/a
Surplus/shortage of own funds to cover the required solvency margin	127,879	n/a
AAS Balta 99.99%	22,216	n/a
Own funds	62,207	n/a
Required solvency margin	39,989	n/a
Surplus/shortage of own funds to cover the required solvency marginrequired solvency margin	22,218	n/a
UAB DK PZU Lietuva 99.88% (31 December 2013: 99.76%)	4,692	7,931
Own funds	76,220	48,438
Required solvency margin	71,522	40,488
Surplus/shortage of own funds to cover the required solvency margin	4,698	7,950
UAB PZU Lietuva Gyvybes Draudimas 99.34%	5,696	6,608
Own funds	21,504	21,996
Required solvency margin	15,770	15,344
Surplus/shortage of own funds to cover the required solvency margin	5,734	6,652
PrJSC PZU Ukraine 100.00%	(12,314)	(13,094)
Own funds	5,199	10,554
Required solvency margin	17,513	23,648
Surplus/shortage of own funds to cover the required solvency margin	(12,314)	(13,094)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(5,966)	(5,491)
Own funds	9,437	9,557
Required solvency margin	15,403	15,048
Surplus/shortage of own funds to cover the required solvency margin	(5,966)	(5,491)
Own funds of PZU	7,981,468	9,505,612
Required solvency margin of PZU	1,362,353	1,362,353
Guarantee capital of PZU	454,118	454,118
Surplus of own funds to cover the required solvency margin	6,619,115	8,143,259
Surplus of own funds to cover the guarantee capital	7,527,350	9,051,494

10. Fair value

10.1 Description of valuation techniques

10.1.1. Debt securities

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

The fair value of debt instruments for which an active market does not exist, is measured using the discounted cash flow method. Discount factors are determined based on the yield curve of government bonds shifted by the credit spread. It is calculated as the difference between the yield on listed debt instruments of issuers with a similar rating operating in similar industries and the yield on government bonds (German government bonds for bonds denominated in EUR).

10.1.2. Equity assets

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

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

10.1.3. Derivatives

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

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

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

10.1.4. Property measured at fair value

Depending on the characteristics of a given real property its fair value is measured using the comparable, income or residual method.

With the comparable method available development land and some smaller and less valuable buildings are measured (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by a reference to the observable market prices, including adjustment ratios. The adjustment ratios take such factors into account as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighbourhood (including location against attractive facilities), investment opportunities, physical conditions, ownership etc.

The income method consists in estimating the fair value of real property based on discounted cash flows. The calculation takes into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city centre, availability, exposure etc.) as well as local market parameters (such as the capitalisation rate, rental fee, maintenance costs). The residual

method is used to determine the market value if the real property is to undergo construction work. The fair value of the real property is defined as the difference in value of the real property after the execution of construction works and average values of the cost of these works, including the revenues attained by similar properties on the market.

Fair value measurement of real property is performed by licensed appraisers. Approval of each measurement is additionally preceded by an inspection carried out by employees of the PZU Group entities aimed at eliminating potential errors and inconsistencies. Any doubts are clarified with real property appraisers as they arise.

Investment property is measured in accordance with the following rules:

- properties held by investment funds being PZU's subsidiaries – measured on a semi-annual basis – as at the last day of each year half and the financial year;
- investment property held by the PZU Group entities – the most valuable items are measured if indications of a possible significant change in value occur (most frequently, on an annual basis). Regardless of the value, each investment property is measured at least once every 5 years;
- properties held for sale – measured before being actively exposed on the market.

10.1.5. Liabilities due to unit-linked investment contracts

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

10.1.6. Liabilities to participants in the consolidated investment funds

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

10.2 Fair value hierarchy

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

- Level I – Financial assets and liabilities measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
 - listed liquid debt instruments;
 - listed shares;
 - listed derivatives.
- Level II – assets and liabilities measured based on input data other than listed prices, classified to Level I, which can be directly (as prices) or indirectly (on the basis of prices) observed on the market. The level includes:
 - unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);
 - derivatives other than listed ones;
 - investment fund units;
 - investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
 - liabilities to participants in consolidated investment funds;
 - unit-linked investment contracts.
- Level III – assets measured based on input data unobserved on the existing markets (unobservable input data). This level includes investment property or property held for sale, measured using the income method or the residual method.

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

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

1) Additional information concerning assets held for sale has been presented in Note 43.

Assets and liabilities measured at fair value as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	1,637,420	279,564	-	1,916,984
Equity instruments	370,228	35,599	-	405,827
Debt securities	1,267,192	243,965	-	1,511,157
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10,963,791	25,088	-	10,988,879
Equity instruments	791,919	25,088	-	817,007
Debt securities	10,171,872	-	-	10,171,872
Financial instruments measured at fair value through profit or loss – held for trading	5,976,711	2,938,586	-	8,915,297
Equity instruments	2,528,806	2,553,048	-	5,081,854
Debt securities	3,442,825	130,575	-	3,573,400
Derivatives	5,080	254,963	-	260,043
Investment property	-	162,441	1,312,329	1,474,770
Assets held for sale ¹⁾	-	38,568	51,435	90,003
Liabilities				
Derivatives	1,169	236,580	-	237,749
Liabilities to participants in the consolidated investment funds	-	688,282	-	688,282
Unit linked investment contracts	-	870,545	-	870,545

1) Additional information concerning assets held for sale has been presented in 43.

Level III investment property	31 December 2014	31 December 2013
Office property	929,977	888,458
Commercial property	230,270	214,440
Warehouse property	891,690	183,790
Other	23,033	25,641
Level III investment property, total	2,074,970	1,312,329

¹⁾ Additional information concerning assets held for sale has been presented in 43.

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

Assets and liabilities whose fair value is revealed as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments held to maturity	19,668,604	128,135	-	19,796,739
Entities measured using the equity method - EMC	47,954	-	-	47,954
Liabilities				
Investment contracts with guaranteed and fixed terms and conditions	-	1,253,256	-	1,253,256

10.3 Reclassifications between levels of fair value hierarchy

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

Both in 2014 and 2013 there were no significant transfers between Levels I and II.

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

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

Reclassification of investment property from Level III to Level II concerned items the new measurement of which was performed on the basis of the estimated sales price.

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

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

Reconciliation of the balance of recurring fair value measurement categorized within Level III of the fair value hierarchy	1 January 2014 - 31 December 2014		1 January 2013 - 31 December 2013	
	Investment property	Assets held for sale	Investment property	Assets held for sale
Opening balance	1,312,329	51,435	451,607	4,461
Acquisition	667,058	-	65,560	-
Reclassification from own property	33,964	789	24,767	21,943
Reclassification from investment property	-	10,786	-	62,313
Profits or losses disclosed in profit or loss as:	76,391	(1,358)	(92,546)	(37,282)
- net profit/loss on realisation and impairment loss on investments	(693)	359	4,430	-
- net change in the fair value of assets and liabilities measured at fair value	77,084	(1,717)	(96,976)	(37,282)
Profits or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	8,725	-	6,308	-
Reclassification to own property	-	-	(24,153)	-
Reclassification to assets held for sale	(10,786)	-	(62,313)	-
Disposal	(15,307)	(1,651)	(9,561)	-
Reclassification to Level II	-	-	(118,214)	-
Change in group composition	3,481	-	1,070,945	-
Exchange differences	(885)	-	(71)	-
Closing balance	2,074,970	60,001	1,312,329	51,435

Property classified to Level III of the fair value

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
1.	Office complex, Wrocław	276,220	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Capitalisation rate	EUR 14.50 - 15.50 1)
2.	Warehouse and office building, Łódź	220,990	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 7.50 - 9.00 EUR 2.60 - 3.60 1)
3.	Office complex, Gdańsk	168,910	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Capitalisation rate	EUR 12.00 - 16.00 1)
4.	Office building, Warsaw	156,000	Income approach using the investment method and the income stream discounting technique	Monthly rental rate per 1 m ² (office space) Monthly rental rate per one parking spot (parking lot) Capitalisation rate	EUR 12.00 - 15.00 EUR 70.00 - 150.00 1)
5.	Office building, Warsaw	140,240	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Monthly rental rate per one parking spot (parking lot) Capitalisation rate	EUR 7.98 - 22.00 EUR 23.46 - 150.00 1)
6.	Warehouses, Czeladź	129,500	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 8.00 - 9.00 EUR 3.00 - 4.40 1)
7.	Warehouse and office building, Nowa Wieś Wrocławska	124,370	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 8.00 - 9.00 EUR 2.40 - 4.20 1)
8.	Office building, Warsaw	115,330	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) Monthly rental rate per one parking spot (parking lot) Capitalisation rate	EUR 11.50 - 14.50 EUR 55.00 - 85.00 1)

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
9.	Warehouse and office building (under construction), Komorniki	101,190	Mixed approach with the use of the residual method	Monthly rental rate per 1 m ² (office space) Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate Construction costs	EUR 8.50 - 9.00 EUR 2.30 - 4.00 1) 2)
10.	Shopping centre, Pabianice	97,250	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² of retail space depending on the surface size rented Capitalisation rate	3) 1)
11.	Warehouse and office building, Bielany Wrocławskie	88,830	The income approach for the part of the property constituting Hall A and mixed approach using the residual method for the part of property allocated for the construction of Hall B	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate Construction costs	EUR 8.00 - 9.00 EUR 2.40 - 4.20 1) 4)
12.	Warehouse and office building, Gdańsk	85,070	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 8.00 - 9.00 EUR 2.60 - 3,60 5) 1)
13.	Retail park, Iława	69,100	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² of retail space depending on the surface size rented Capitalisation rate	3) 1)
14.	Warehouse and office building, Łódź	62,780	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 7.50 - 9.00 EUR 2.60 - 3.60 1)
15.	Warehouse and office building, Nowa Wieś Wrocławska	60,050	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 8.00 - 9.00 EUR 2.40 - 4.20 1)
16.	Warehouse and office building, Błonie	44,180	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² (office space) in warehouse parks Monthly rental rate per 1 m ² (warehouse space) Capitalisation rate	EUR 7.00 - 8.00 EUR 2.10 - 3.00 1)
17.	Retail building, Nowy Targ	39,040	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² of retail space depending on the surface size rented Capitalisation rate	3) 1)

No	Name of the property	Fair value as at 31 December 2014	Measurement approach	Unobservable data	Ranges of unobservable data
18.	Retail park, Lublin	38,650	Income approach using the investment method and the simple capitalisation technique	Monthly rental rate per 1 m ² of retail space depending on the surface size rented Capitalisation rate	3) 1)
19.	Other	57,270	n/a	n/a	n/a
Total		2,074,970			

¹⁾ the capitalisation rate was determined based on the base rate determined for the selected market transaction (the choice depends on the location and nature of the property which is being measured) and the base rate adjustments resulting from the following factors which characterising the property: general location, immediate neighbourhood, specification of the building, the characteristics of the building, the rent condition, the remaining duration of lease contracts, the transaction value, turnover, average rents, the age and type of building, distance from communication routes.

²⁾ the value of construction costs was determined based on the investment budget.

³⁾ the market rent for the property was determined based on a market analysis of retail space in similarly located buildings with similar characteristics to the property which is being measured, in particular it was based on rental rates in contracts signed for the shopping centre in question.

⁴⁾ the value of construction costs was determined based on market cost of building construction.

⁵⁾ the market rent was determined based on rates included in recently concluded contracts for the park.

⁶⁾ the value of construction costs was determined based on market cost of office building construction minus costs incurred as at the measurement date.

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

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

In 2014 and 2013 there were no changes introduced to method of determining fair value of financial instruments measured at fair value, the value of which is significant from the consolidated financial statements perspective.

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

As at 31 December 2014 and 31 December 2013, the actual use of one item of investment property (carrying amount of PLN 2,822 thousand) was not the most extensive and best use. However, the carrying amount measurement assumes its most extensive and best use.

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

11. Gross written premiums

Gross written premiums	1 January – 31 December 2014	1 January – 31 December 2013
Gross written premium – non-life insurance	8,999,205	8,656,694
In direct insurance	8,905,802	8,601,894
In indirect insurance	93,403	54,800
Gross written premium – life insurance	7,885,434	7,823,309
Individual premiums	3,256,968	3,303,824
Group insurance premiums	4,628,466	4,519,485
Total gross written premiums	16,884,639	16,480,003

In 2014 and 2013, the life insurance entities did not engage in reinsurance inwards.

Gross written premiums in direct property and casualty insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January – 31 December 2014	1 January – 31 December 2013
Accident and sickness insurance (group 1 and 2)	527,989	506,773
Motor third-party liability insurance (group 10)	2,899,442	2,939,441
Other motor insurance (group 3)	2,209,647	2,127,195
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	77,015	58,338
Insurance against fire and other damage to property (groups 8, 9)	2,043,689	1,969,678
Third-party liability insurance (groups 11, 12, 13)	798,498	705,364
Credit insurance and surety ship (groups 14, 15)	97,884	49,255
Assistance (group 18)	248,180	214,657
Legal protection (group 17)	877	848
Other (group 16)	95,984	85,145
Total	8,999,205	8,656,694

12. Revenue from commissions and fees

Revenue from commissions and fees	1 January – 31 December 2014	1 January – 31 December 2013
Pension contracts	270,565	217,189
Commission on handling fees	19,871	48,664
Asset management fee for open pension fund	112,100	168,525
Other	138,594 ¹⁾	-
Investment contracts	12,282	18,808
Fees from unit-linked investment contract	12,282	18,808
Other	67,917	63,172
Revenue and payments received from funds and investment fund management companies	67,917	63,172
Total revenue from commissions and fees	350,764	299,169

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

13. Net investment income

Net investment income	1 January – 31 December 2014	1 January – 31 December 2013
Interest income, including:	1,480,543	1,697,218
- financial assets available for sale	55,849	58,219
- financial assets held to maturity	961,401	1,156,453
- loans and receivables	439,660	478,130
- receivables, including insurance receivables	484	-
- cash and cash equivalents	23,149	4,416
Dividend income, including:	88,121	127,421
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	63,903	5,742
- financial assets held for trading	18,059	74,899
- financial assets available for sale	6,159	46,780
Income from investment property	137,428	120,328
Exchange differences, including:	147,510	5,695
- financial assets held to maturity	1,957	1,512
- financial assets available for sale	8,421	(503)
- loans and receivables	81,952	6,489
- receivables, including insurance receivables	21,210	(1,128)
- cash and cash equivalents	33,970	(675)
Other, including:	(59,764)	(84,012)
- costs of investment activities	(24,512)	(42,553)
- investment property maintenance costs	(61,209)	(61,423)
- other	25,957	19,964
Total net investment income	1,793,838	1,866,650

14. Net result on realization and impairment losses on investments

Net result on realization and impairment losses on investments	1 January – 31 December 2014	1 January – 31 December 2013
Net result on realization of investments	380,284	89,329
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	317,227	117,530
- equity instruments	56,405	126,369
- debt instruments	260,822	(8,839)
Financial assets held for trading, including:	97,886	21,011
- equity instruments	(36,469)	75,790
- debt instruments	34,251	(41,517)
- derivatives	100,104	(13,262)
Financial assets available for sale, including:	21,071	30,685
- equity instruments	633	12,104
- debt instruments	20,438	18,581
Financial assets held to maturity, including:	1,371	6,440
- debt instruments held to maturity	1,371	6,440
Loans and receivables	(368)	(33)
Receivables, including insurance receivables	(56,733)	(98,997)
Investment property	(170)	4,430
Associates accounted for using the equity method ¹⁾	-	8,263
Impairment losses	46,863	(46,782)
Financial assets available for sale, including:	(3,945)	(110)
- equity instruments	(3,945)	(110)
Loans and receivables	(10,242)	-
Receivables, including insurance receivables	61,050 ²⁾	(46,672)
Net result on realization and impairment losses on investments	427,147	42,547

¹⁾ Result on disposal of KGJK

²⁾ including reversal of receivables impairment losses in the amount of PLN 26,275 thousand due to a mortgage to Metro-Projekt Sp. z o.o. described in point 56.6.

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

Net change in the fair value of assets and liabilities measured at fair value	1 January – 31 December 2014	1 January – 31 December 2013
Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition, including:	413,373	145,650
- equity instruments	(160,394)	43,881
- debt instruments	615,929	154,150
- valuation of liabilities to participant of consolidated investment fund	(42,162)	(52,381)
Financial instruments held for trading, including:	22,945	386,196
- equity instruments	42,707	221,241
- debt instruments	83,448	142,760
- derivatives	(103,210)	22,195
Investment property	76,215	(99,206)
Result on consolidation of investment funds, including:	-	172,718
- amount reclassified from the "Revaluation reserve" to the consolidated profit or loss upon consolidation date	-	184,535
- amount resulting from consolidation of special purpose entities, controlled by consolidated investment funds	-	(11,817)
Net change in the fair value of assets and liabilities measured to fair value	512,533	605,358

16. Other operating income

Other operating income	1 January – 31 December 2014	1 January – 31 December 2013
Release of provisions for future and existing pensioners benefits	30,966	-
Commission on claims representative services	7,162	7,772
Release of provisions	34,773 ¹⁾	19,347 ²⁾
Released impairment losses on non-financial assets	8,098	14,688
Sale of property, plant and equipment and property, plant and equipment under construction	2,252	3,645
Reinsurers' commissions and share in reinsurers' profit	(6,613)	76,856
Release of provision for restructuring expenses	-	18,626
Revenues from sale of products, goods, and services by non-insurance companies	295,222	262,131
Change in the scope of consolidation and equity method valuation	-	35,392
Revenues from direct claims handling regarding policies concluded with other insurance companies	69,381	-
Interest from overdue receivables in direct insurance and outward reinsurance	35,434	17,264
Other	60,958	29,500
Total other operating income	537,633	485,221

¹⁾ The item presents, among others, the effect of reversal of the provision for the costs of closing the IT GraphTalk project (PLN 28,785 thousand).

²⁾ The item presents, among others, the effect of reversal of the provision for the Office of Competition and Consumer Protection (PLN 13,148 thousand).

17. Claims, benefits and change in technical provisions

Claims, benefits and change in technical provisions	1 January – 31 December 2014	1 January – 31 December 2013
Claims, benefits and change in technical provisions – non-life insurance	5,866,427	5,250,037
Reinsurers' share in claims, benefits and change in technical provisions – non-life insurance	(191,284)	(33,889)
Claims, benefits and change in technical provisions - life insurance	5,866,801	5,945,240
Reinsurers' share in claims, benefits and change in technical provisions - life insurance	(236)	(164)
Total claims, benefits and change in technical provisions	11,541,708	11,161,224

17.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Gross claims and change in provisions in non-life insurance	5,866,427	5,250,037
Claims and claims handling expenses for the current period	3,154,034	2,876,867
Claims and claims handling expenses for previous periods	1,669,781	1,601,198
Change in provision for outstanding claims	1,042,612	771,972
Reinsurers' share in claims and change in provisions in non-life insurance	(191,284)	(33,889)
Claims and claims handling expenses for the current period	(18,718)	(9,973)
Claims and claims handling expenses for previous periods	(67,478)	(266,072)
Change in provision for outstanding claims	(105,088)	242,156
Net claims and change in provisions in non-life insurance	5,675,143	5,216,148
Claims and claims handling expenses for the current period	3,135,316	2,866,894
Claims and claims handling expenses for previous periods	1,602,303	1,335,126
Change in provision for outstanding claims	937,524	1,014,128

17.2 Life insurance

Benefits in life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Resulting from maturity	497,470	368,811
Resulting from benefits paid as a result of death	2,708,948	2,754,574
Resulting from morbidity	609,461	608,914
Resulting from resignation from the insurance contract	265,425	252,719
Resulting from disability and entitlement to a disability pension	4,889	5,135
Resulting from annuity benefits	41,657	41,517
Resulting from childbirth	322,564	306,859
Resulting from hospital treatment	300,846	288,703
Resulting from a refund of accumulated cash and transfer payments	281,834	141,703
Other	121,195	146,889
Total benefits in life insurance	5,154,289	4,915,824

17.3 Claims handling expenses

Claims handling expenses, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	16,722	18,766
External services	189,921	185,488
Taxes and charges	20,037	15,330
Employee expenses	295,472	297,618
Depreciation of property, plant and equipment	11,820	13,603
Amortization of intangible assets	18,650	12,904
Other, including:	119,981	86,582
- awarded costs, penal interest and penalties awarded in cases over claims	110,184	77,608
- other	9,797	8,974
Total claims handling expenses	672,603	630,291

18. Change in measurement of investment contracts

Change in measurement of investment contracts	1 January – 31 December 2014	1 January – 31 December 2013
Resulting from investment contracts with guaranteed and fixed terms and conditions:	16,609	43,536
- interest expense calculated using the effective interest rate method	16,609	43,536
Resulting from unit-linked investment contracts	(2,578)	34,179
Total change in measurement of investment contracts, total	14,031	77,715

19. Acquisition costs

Acquisition costs, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	28,754	31,058
External services	87,212	86,743
Taxes and charges	5,791	5,712
Employee expenses	406,247	371,888
Depreciation of property, plant and equipment	13,432	13,726
Amortization of intangible assets	19,111	12,284
Other, including:	1,701,745	1,527,023
- commissions from direct activity	1,644,032	1,464,182
- advertisement	43,576	51,854
- commissions from indirect activity	6,543	5,218
- other	7,594	5,769
Change in deferred acquisition expenses	(115,268)	(32,496)
Total acquisition expenses	2,147,024	2,015,938

20. Administrative expenses

Administrative expenses, by type	1 January – 31 December 2014	1 January – 31 December 2013
Consumption of materials and energy	36,708	44,763
External services	233,534	202,192
Taxes and charges	51,335	37,137
Employee expenses	775,232	715,242
Depreciation of property, plant and equipment	50,869	44,223
Amortization of intangible assets	38,365	33,819
Remuneration of people handling group insurance with companies	209,376	208,165
Other (by type), including:	132,280	120,939
- advertisement	88,941	77,633
- other	43,339	43,306
Total administrative expenses	1,527,699	1,406,480

Administrative expenses also include costs of insurance activity, not classified as acquisition expenses, related to premium collection, management of the portfolio of insurance contracts, reinsurance contracts and other related to the operations of the insurance companies of PZU Group as specified in their By-laws.

21. Employee expenses

Employee expenses	1 January – 31 December 2014	1 January – 31 December 2013
Wages and salaries	1,247,136	1,138,055
Defined contributions plans, including:	262,903	249,252
- overheads	199,746	189,517
- third pillar pension plans, including costs of premiums to PPE incurred in the period	63,157	59,735
Other	76,673	69,741
Total employee expenses	1,586,712	1,457,048

As at 31 December 2013, PZU, PZU Życie and PZU CO had third pillar pension plans for their employees, considered defined contribution plans. Due to these plans, the employer paid additional 7% of the gross salary.

Employee expenses are disclosed under "Claims, benefits and change in technical provisions", "Acquisition costs", "Administrative expenses" and "Other operating expenses" of consolidated statement of profit or loss.

22. Other operating expenses

Other operating expenses	1 January – 31 December 2014	1 January – 31 December 2013
Costs of core business of non-insurance companies	307,172	270,895
Amortization of intangible assets acquired in company takeover transactions	87,795	-
Costs from direct claims handling regarding claims on policies concluded with other insurance companies	73,051	-
Expenses due to prevention activities	68,234	40,752
Compulsory payments to the insurance market authorities	58,744	51,046
Insurance Guarantee Fund	35,872	36,703
Creation of provisions	33,365	9,036
Donations ¹⁾	31,508	35,467
National Headquarters of the State Fire Service and Volunteer Fire Service Association	28,869	30,215
Rechargeable expenses	12,313	7,429
Impairment of non-financial assets	5,106	54,039
Costs of acquisition for investment fund management companies	2,301	1,850
Net value of property, plant and equipment and property, plant and equipment under construction sold	1,883	897
Change in the scope of consolidation	-	35,134
Other	161,527	132,136
Total other operating expenses	907,740	705,599

¹⁾ Including donations to PZU Foundation in the amount of PLN 30,000 thousand (in 2013: PLN 32,000 thousand).

23. Borrowing costs

Borrowing costs	1 January – 31 December 2014	1 January – 31 December 2013
Interest, including:	130,676	60,663
- loans	32	744
- sell buy-back transactions	105,975	44,474
- own debt instruments	15,676	-
- bank loans	8,908	14,453
- other	85	992
Other, including:	89,189	1,001
- exchange differences on own debt instruments	79,171	-
- exchange differences	9,218	557
- other	800	444
Total borrowing costs	219,865	61,664

24. Exchange differences

Exchange differences recognized in the consolidated statement of profit or loss	1 January – 31 December 2014	1 January – 31 December 2013
Financial assets:	92,330	7,498
- financial assets held to maturity	1,957	1,512
- financial assets available for sale	8,421	(503)
- loans and receivables	81,952	6,489
Receivables, including insurance receivables	21,210	(1,128)
Cash and cash equivalents	33,970	(675)
Liabilities arising from the issue of own debt instruments	(79,171)	-
Other liabilities	33	4
Total exchange differences recognized in the consolidated statement of profit or loss	68,372	5,699

The statement does not include exchange differences concerning technical provisions as they cannot be determined due to the adopted method of calculation of the aforementioned provisions.

25. Earnings per share

Earnings per share	1 January – 31 December 2014	1 January – 31 December 2013
Net profit from continued operations attributable to equity holders of the parent entity	2,967,731	3,293,496
Basic and diluted weighted average number of ordinary shares in issue	86,351,949	86,351,949
Number of shares issued	86,352,300	86,352,300
Number of treasury shares (held by consolidated investment funds)	(351)	(351)
Basic and diluted profit (loss) per ordinary share (in PLN)	34,37	38,14

No operations were discontinued in both 2014 and 2013.

There were neither transactions, nor events resulting in the dilution of profit per one share in both 2014 and 2013.

26. Income tax

Income tax	1 January – 31 December 2014	1 January – 31 December 2013
Gross profit (consolidated)	3,691,693	4,120,498
CIT rate (or range of rates) for the country of the registered office of the parent entity (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country for the registered office of the parent entity	701,422	782,895
Differences between the income tax calculated above and the income tax recognized in the statement of profit or loss:	22,644	42,648
- tax losses	1,474	(874)
- fines, contractual penalties	1,370	1,678
- dividends	(3,182)	(4,025)
- valuation of financial assets	(13,018)	(17,359)
- valuation of investment property	5,365	-
- created/reversed impairment losses on receivables not classified as tax deductible expenses	(3,731)	4,137
- other created/reversed provisions and impairment losses on other assets not classified as tax deductible expenses	18,865	51,401
- unrealized profits and losses on outward reinsurance	-	(4,033)
- tax on insurance activities in Ukraine	4,015	4,585
- depreciation	(524)	448
- other tax increases, cancellations, exemptions, deductions and reductions	12,010	6,690
Income tax recognized in the statement of profit or loss	724,066	825,543

Total current and deferred tax	1 January – 31 December 2014	1 January – 31 December 2013
1. Recognized in the statement of profit or loss, including:	724,066	825,543
- current portion	673,506	885,776
- deferred tax	50,560	(60,233)
2. Recognized in other comprehensive income, including:	3,383	(39,581)
- current portion	-	-
- deferred tax	3,383	(39,581)

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo relatively frequent changes. The current regulations contain ambiguities which result in a difference in opinions regarding their legal interpretation, both among various State authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duty or foreign currency settlements) may be controlled by authorities authorised to impose high penalties, and additional liability amounts recognized during are to be paid with high interest. As a result, the level of tax risk in Poland, the Baltic States and Ukraine exceeds that of countries with more developed tax systems. In Poland tax returns are subject to control over a period of five years. Consequently, the amounts presented in consolidated financial statements may change at a later date, after they have been finally assessed by tax authorities.

On 25 September 2014, a new Tax Capital Group ("TCG") agreement was signed between the PZU Group entities, comprising 13 companies: PZU, PZU Życie, Link4, PZU CO, PZU Pomoc SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o., PZU AM SA, TFI PZU SA, PZU Zdrowie SA, PZU Finanse Sp. z o.o., Omicron SA, Omicron Bis SA. The TCG was formed for a period of 3 years from 1 January 2015 to 31 December 2017.

PZU is the parent entity and the company representing the TCG in the above-mentioned agreement. In accordance with paragraph 25 clause 1 of the CIT Act, the TCG conducts settlements with the Tax Office on a monthly basis. PZU makes advance payments of corporate income tax to the Tax Office, which are due from all the companies belonging to the TCG and the said companies transfer the CIT advances related to their business activities to PZU.

27. Income tax presented in other comprehensive income

Income tax relating to components of other comprehensive income	1 January – 31 December 2014	1 January – 31 December 2013
Other comprehensive income before tax	20,576	(144,064)
Income tax	(3,383)	39,581
Financial assets available for sale	(1,743)	42,766
Provisions for retirement and death benefits	1,526	-
Property reclassified from property, plant and equipment to investment property	(3,166)	(3,185)
Other comprehensive income, net	17,193	(104,483)

28. Intangible assets

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

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

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

²⁾ this item presents the transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in Note 59.9.1. The decrease in assets were converted with an average exchange rate disclosed in Note 5.3.

The item "Impairment losses" indicate losses for total expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand (PLN 116,309 thousand as at 31 December 2013); and the life unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand (PLN 34,165 thousand as at 31 December 2013).

Intangible assets with indefinite period of use (trademarks with a total value of PLN 169,344 thousand) were tested for impairment, including goodwill. Detailed information concerning those tests has been presented in Note 29.

Changes in intangible assets (by group) in the year ended 31 December 2013

	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets in the production stage	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	559,746	446,263	206,382	1,507	767,635
Increases (due to):	211,755	207,524	172,831	471	385,057
- purchase	18,582	18,226	169,496	-	188,078
- change in group composition	7,470	5,557	-	471	7,941
- reclassification from intangible assets under construction	185,359	183,495	-	-	185,359
- other	344	246	3,335	-	3,679
Decreases (due to):	(7,269)	(4,031)	(193,509)	(17)	(200,795)
- disposal	(260)	-	-	(17)	(277)
- liquidation	(5,147)	(2,705)	(4,420)	-	(9,567)
- reclassification from intangible assets under construction	-	-	(185,359)	-	(185,359)
- other	(1,862)	(1,326)	(3,730)	-	(5,592)
- exchange differences	(53)	(47)	-	-	(53)
Gross value of intangible assets – closing balance	764,179	649,709	185,704	1,961	951,844
Accumulated depreciation – opening balance	(415,442)	(341,967)	-	(311)	(415,753)
Changes (due to):	(60,706)	(56,066)	-	(525)	(61,231)
- amortization for the period	(60,316)	(55,073)	-	(127)	(60,443)
- sale	57	-	-	9	66
- liquidation	4,648	2,687	-	-	4,648
- change in group composition	(4,875)	(3,250)	-	(419)	(5,294)
- exchange differences	19	19	-	12	31
- other	(239)	(449)	-	-	(239)
Accumulated depreciation – closing balance	(476,148)	(398,033)	-	(836)	(476,984)
Impairment losses – opening balance	(34,165)	-	(134,479)	-	(168,644)
Other operating expenses - changes	-	-	(1,910)	-	(1,910)
Liquidation of assets	-	-	4,420	-	4,420
Impairment losses – closing balance	(34,165)	-	(131,969)	-	(166,134)
Net value of intangible assets – closing balance	253,866	251,676	53,735	1,125	308,726

Amortization of intangible assets by position in the consolidated statement of profit or loss

	1 January – 31 December 2014	1 January – 31 December 2013
Insurance claims and change in technical provisions	18,650	12,904
Change in measurement of investment contracts	1	2
Acquisition costs	19,111	12,284
Administrative expenses	38,365	33,819
Other operating expenses	88,830 ¹⁾	1,355
Costs of investment activities	81	79
Total depreciation	165,038	60,443

¹⁾ Including amortization of intangible assets acquired in company takeover transactions amounting to PLN 87,795 thousand

29. Goodwill

Goodwill	31 December 2014	31 December 2013
Lietuvos Draudimas AB	360,018	-
Link4	236,813	-
Codan Branch	112,319	-
AAS Balta	38,258	-
Health care companies	29,580	-
Other	8,675	8,519
Goodwill, total	785,663	8,519

Changes in goodwill	1 January – 31 December 2014	1 January – 31 December 2013
Gross value of goodwill – opening balance	20,123	20,451
Changes in the period:	772,572	(328)
- acquisition of Lietuvos Draudimas AB	357,119	-
- acquisition of Link4	236,813	-
- acquisition of Codan Branch	110,399	-
- acquisition of AAS Balta	37,348	-
- acquisition of other entities	29,651	-
- exchange differences	1,242	(328)
Gross value of goodwill – closing balance	792,695	20,123
Impairment losses – opening balance	(11,604)	(11,977)
Changes in impairment losses due to exchange differences	4,572	373
Impairment losses – closing balance	(7,032)	(11,604)
Net value of goodwill – closing balance	785,663	8,519

Impairment test

Impairment test is the comparison of carrying amounts (including goodwill) and recoverable amounts of CGUs. CGUs are particular entities or their foreign branches which are subject to separate internal monitoring. An impairment test regarding goodwill and intangible assets with indefinite period of use was prepared as at 31 December 2014.

The recoverable amount of PZU Lietuva was determined based on the selling price less the costs to sell (EUR 54,000 thousand; additional information on the sale is presented in Note 59.9.1). The recoverable amount of other CGUs was determined based on value in use, using the discounted cash flow method based on financial projections not exceeding 5 years. The adopted discount rates have been determined in accordance with the CAPM model. Risk-free rates have been determined based on the yield of 10-year government bonds offered by the country where the CGU has its registered seat; the beta ratio has been based on ratios of similar listed entities. Market premiums range between 5.5 and 6.0%. In the case of insurance companies, the projected cash flows include the need to maintain an adequate level of own funds (for branches that do not manage investments, assets under management at the level of the PZU were allocated pro forma). Terminal growth rates were adopted depending on the assumed long-term development prospects and the expected growth of the insurance market.

CGU	Discount rate	Terminal growth rate
Lietuvos Draudimas AB	6.6%	3.7%
AAS Balta	6.3%	3.8%
Codan branch	5.5%	3.5%
Link4	7.8%	2.5%
Health care companies	7.2%	3.0%

As a result of the test, there was no reason for impairment losses recognition. The table below shows the surplus of the recoverable amounts over the carrying amounts and the maximum discount rates and minimum terminal growth rate, at the level of which the carrying amount of a CGU equals its recoverable amount.

CGU	Surplus (in PLN '000)	Marginal value of discount rate	Marginal value of terminal growth rate
Lietuvos Draudimas AB	676,160	8.9%	0.9%
AAS Balta	602,798	13.7%	-7.7%
Codan branch	442,738	12.9%	-7.2%
Link4	220,411	9.7%	-0.7%
Health care companies	18,555	9.2% - 9.3%	0.1% - 0.5%

30. Tangible assets

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

	Technical equipment and machines	Vehicles	Tangible assets under construction	Real Property ¹⁾	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	582,604	116,418	22,954	1,081,035	139,549	1,942,560
Increases (due to):	64,174	53,269	66,747	132,354	54,759	371,303
- purchase	26,217	12,920	54,498	8,162	9,018	110,815
- change in group composition	27,563	15,782	730	105,199	39,899	189,173
- reclassification from investment property	-	-	-	15,419	-	15,419
- reclassification from tangible assets under construction	9,875	21,827	-	3,574	5,693	40,969
- other	519	2,740	11,519	-	149	14,927
Decreases (due to):	(108,241)	(25,255)	(46,798)	(83,617)	(18,344)	(282,255)
- sale	(1,691)	(22,926)	-	(233)	(1,367)	(26,217)
- liquidation	(98,748)	(2,329)	-	(608)	(14,737)	(116,422)
- reclassification to assets held for sale according to IFRS 5	(4,879)	-	-	(20,691)	(1,810)	(27,380)
- reclassification to investment property	(1,893)	-	(124)	(61,714)	(62)	(63,793)
- reclassification from tangible assets under construction	-	-	(40,969)	-	-	(40,969)
- other	(1,030)	-	(5,705)	(371)	(368)	(7,474)
Exchange differences	(1,887)	(771)	12	610	(961)	(2,997)
Gross value of tangible assets – closing balance	536,650	143,661	42,915	1,130,382	175,003	2,028,611
Accumulated depreciation – opening balance	(494,299)	(52,976)	-	(322,530)	(86,050)	(955,855)
Changes (due to):	55,925	(2,346)	(422)	(45,106)	(21,309)	(13,258)
- depreciation for the period	(29,785)	(14,318)	-	(29,960)	(15,372)	(89,435)
- sale	1,550	18,423	-	208	1,220	21,401
- liquidation	98,229	2,253	-	500	14,483	115,465
- change in group composition	(20,411)	(7,074)	(415)	(28,933)	(24,166)	(80,999)
- reclassification to assets held for sale according to IFRS 5	3,310	-	-	3,063	1,422	7,795
- reclassification to investment property	1,265	-	-	10,157	36	11,458
- exchange differences	1,412	462	(7)	22	898	2,787
- other	355	(2,092)	-	(163)	170	(1,730)
Accumulated depreciation – closing balance	(438,374)	(55,322)	(422)	(367,636)	(107,359)	(969,113)
Impairment losses – opening balance	-	-	-	(59,424)	-	(59,424)
Changes recognized in the financial profit/loss, including:	(2,452)	(20)	(15)	5,921	-	3,434
- other operating expenses	(2,490)	(20)	(15)	(2,139)	-	(4,664)
- other operating revenue	38	-	-	8,060	-	8,098
Other changes:	(961)	3	-	3,300	(4,241)	(1,899)
- change in group composition	(1,301)	-	-	-	(4,241)	(5,542)
- reclassification to assets held for sale according to IFRS 5	-	-	-	1,446	-	1,446
- reclassification to investment property	-	-	-	1,863	-	1,863
- other	340	3	-	(9)	-	334
Impairment losses – closing balance	(3,413)	(17)	(15)	(50,203)	(4,241)	(57,889)
Net value of tangible assets – closing balance	94,863	88,322	42,478	712,543	63,403	1,001,609

¹⁾ including land perpetual usufruct

Position „reclassification to assets held for sale according to IFRS 5” discloses the transfer of assets of PZU Lietuva to assets available for sale in relation to transaction described in Note 59.9.1. The decrease of assets was translated at an average exchange rate disclosed in Note 5.3.

Changes in tangible assets (by group) in the year ended 31 December 2013

	Technical equipment and machines	Vehicles	Tangible assets under construction	Property ¹⁾	Other tangible assets	Total tangible assets
Gross value of tangible assets – opening balance	604,403	104,430	44,258	1,110,039	137,027	2,000,157
Increases (due to):	40,362	31,501	38,404	56,147	19,996	186,410
- purchase	15,469	1,474	38,167	6,379	12,939	74,428
- change in group composition	3,525	11,581	220	689	2,221	18,236
- reclassification to investment property	-	-	-	46,966	-	46,966
- reclassification from tangible assets under construction	20,947	18,226	-	200	2,666	42,039
- other	421	220	17	1,913	2,170	4,741
Decreases (due to):	(62,037)	(19,429)	(59,708)	(85,201)	(17,397)	(243,772)
- sale	(7,999)	(19,205)	(2)	-	(271)	(27,477)
- liquidation	(50,185)	(224)	(12,257)	(2,904)	(16,876)	(82,446)
- reclassification to assets held for sale according to IFRS 5	-	-	-	(25,001)	-	(25,001)
- reclassification to investment property	-	-	-	(57,296)	-	(57,296)
- reclassification from tangible assets under construction	-	-	(42,039)	-	-	(42,039)
- other	(3,853)	-	(5,410)	-	(250)	(9,513)
Exchange differences	(124)	(84)	-	50	(77)	(235)
Gross value of tangible assets – closing balance	582,604	116,418	22,954	1,081,035	139,549	1,942,560
Accumulated depreciation – opening balance	(523,810)	(53,521)	-	(308,816)	(84,730)	(970,877)
Changes (due to):	29,511	545	-	(13,714)	(1,320)	15,022
- depreciation for the period	(28,691)	(12,726)	-	(26,649)	(13,481)	(81,547)
- sale	7,362	18,286	-	-	276	25,924
- liquidation	50,002	123	-	2,046	16,234	68,405
- change in group composition	(2,301)	(4,975)	-	(255)	(1,807)	(9,338)
- reclassification to assets held for sale according to IFRS 5	-	-	-	5,468	-	5,468
- reclassification to investment property	-	-	-	5,873	-	5,873
- exchange differences	87	50	-	21	73	231
- other	3,052	(213)	-	(218)	(2,615)	6
Accumulated depreciation – closing balance	(494,299)	(52,976)	-	(322,530)	(86,050)	(955,855)
Impairment losses – opening balance	-	-	(12,238)	(24,725)	-	(36,963)
Changes recognized in the financial profit/loss, including:	-	-	-	(37,441)	-	(37,441)
- other operating expenses	-	-	-	(52,129)	-	(52,129)
- other operating revenues	-	-	-	14,688	-	14,688
Other changes:	-	-	12,238	2,742	-	14,980
- change in group composition	-	-	-	(124)	-	(124)
- reclassification to assets held for sale according to IFRS 5	-	-	-	2,873	-	2,873
- exchange differences	-	-	-	(7)	-	(7)
- liquidation of investments in foreign property	-	-	12,238	-	-	12,238
Impairment losses – closing balance	-	-	-	(59,424)	-	(59,424)
Net value of tangible assets – closing balance	88,305	63,442	22,954	699,081	53,499	927,281

¹⁾ including land perpetual usufruct

"Reclassifications to investment property" include the same values, as explained in Note 31.

31. Investment property

Investment property	31 December 2014	31 December 2014
Own land	177,791	176,730
Land perpetual usufruct right	39,557	32,210
Buildings and structures	2,017,141	1,259,223
Cooperative ownership of premises	1,573	6,607
Total investment property	2,236,062	1,474,770

Change in investment property	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	1,474,770	564,404
Increases (due to):	722,477	1,190,779
- purchase	668,524	321,498
- change in group composition	3,481	817,858
- reclassifications to real property used for internal purposes	50,472	51,423
Decreases (due to):	(53,192)	(198,754)
- sale and liquidation	(16,000)	(28,677)
- reclassifications to real property used for internal purposes	(15,419)	(46,966)
- reclassification to held for sale according to IFRS 5	(21,773)	(123,111)
Profit (loss) on fair value remeasurements	92,889	(81,586)
- recognized in profit or loss	76,215	(99,206)
- recognized in other comprehensive income	16,674	17,620
Exchange differences	(882)	(73)
Net book value – closing balance	2,236,062	1,474,770

The item "Land perpetual usufruct" contains a right to use a land for up to 99 years. Land perpetual usufruct can be subject of sale.

"Reclassifications from property for internal purposes" present the carrying amount of property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date.

The fair value of investment property results from valuations by independent appraisers having the relevant licenses as required by the law, using the comparable or the income method based on the current market ratios, conducted mainly in 2014.

32. Entities measured using the equity method

Associates and joint ventures	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Name of entity	EMC Instytut Medyczny SA		GSU Pomoc Górnicy Klub Ubezpieczonych SA		Armatura Tower Sp. z o.o.	
Nature of the relationship between PZU and the entity	Associate - non-strategic		Associate - non-strategic		Joint-venture - non-strategic	
Seat of the entity	Wrocław	Wrocław	Tychy	Tychy	Kraków	Kraków
Share in the entity's capital	28.58%	29.87%	30.00%	30.00%	50.00%	50.00%
Share in the entity's votes	25.41%	25.31%	30.00%	30.00%	50.00%	50.00%
Valuation method in consolidated financial statements	Equity method		Equity method		Equity method	
Accounting standards applied by the entity	IFRS		PAS		IFRS	
Carrying amount of the involvement in the entity	65,707	47,954	586	616	18	25
Fair value of the interest in the entity	52,737	44,746	None – entity is not listed	None – entity is not listed	None – entity is not listed	None – entity is not listed
Dividends received from the entity	-	-	36	104	-	-
Basic financial information						
Assets, including:	241,290	231,397	2,509	2,633	35	nd ¹⁾
Short-term assets, including:	49,796	79,690	2,002	2,594	35	nd ¹⁾
Cash and cash equivalents	16,931	59,685	1,752	2,494	32	nd ¹⁾
Long-term assets	191,494	151,707	507	39	-	nd ¹⁾

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Associates and joint ventures	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Equity	136,475	139,021	1,953	2,053	35	nd ¹⁾
Liabilities, including:	104,815	92,376	556	580	-	nd ¹⁾
Short-term liabilities, including:	60,162	48,905	556	580	-	nd ¹⁾
Short-term financial liabilities	23,930	23,384	-	-	-	nd ¹⁾
Long-term liabilities, including:	44,653	43,471	-	-	-	nd ¹⁾
Long-term financial liabilities	24,286	25,436	-	-	-	nd ¹⁾
Revenue from core operations	243,262	172,556	1,093	677	-	nd ¹⁾
Depreciation and amortisation	12,607	9,121	49	24	-	nd ¹⁾
Interest income	1,130	172	133	153	-	nd ¹⁾
Interest expense	2,419	2,780	-	-	-	nd ¹⁾
Income tax	(211)	569	33	54	-	nd ¹⁾
Total net comprehensive income, including:	(7,233)	78	21	121	(15)	nd ¹⁾
Profit/loss, including:	(6,605)	171	21	121	(15)	nd ¹⁾
Profit (loss) from continued operations	(6,605)	171	21	121	(15)	nd ¹⁾
Profit (loss) from discontinued operations	-	-	-	-	-	nd ¹⁾
Other comprehensive income	(628)	(93)	-	-	-	nd ¹⁾

¹⁾ The company did not prepare financial statements as at 31 December 2013.

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

Change in the share in the net assets of associates	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	19,334	-
Change in the scope of entities measured using the equity method	-	685
Purchase of EMC shares	19,459	19,176
Acquisition of shares in Armatura Tower sp. z o.o.	-	25
Share in net profit/(loss)	(1,525)	(428)
Dividends ¹⁾	(36)	(104)
Share in other comprehensive income	(182)	(20)
Closing balance	37,050	19,334

¹⁾ Dividend paid by GSU Pomoc Górniczy Klub Ubezpieczonych SA

Change in goodwill related to associates	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	29,261	-
Acquisition of an associate	-	29,261
Closing balance	29,261	29,261

The total balance of goodwill related to associates concerns EMC.

Reconciliation of the EMC measurement	1 January - 31 December 2014	1 January - 31 December 2013
Net assets of EMC	136,475	139,021
Non-controlling interest	(7,825)	(4,141)
The increase registered on 14 March 2014 ¹⁾	-	(70,890)
The difference between net assets resulting from the audit of financial statements of EMC conducted by an auditor	-	(260)
Goodwill in financial statements of EMC as at the moment of achieving a considerable inflow	(1,151)	(1,151)
Net assets of EMC measured using the equity method	127,499	62,579
PZU Group's share in EMC capitals	36,446	18,693
Goodwill in financial statements of PZU Group	29,261	29,261
Carrying amount	65,707	47,954

¹⁾ The EMC's equities presented in the EMC 2013 financial statements have been increased by the effect of issuing new shares. The increase was registered on 14 March 2014. PZU Group has considered the effect of acquisition of shares from the new issue in the measurement using the equity method as of the date of registering the above increase. Hence, as at the end of 2013, for the purposes of equity measurement method the EMC equities have been decreased by the value of non-registered shares issue.

Impairment test

Based on the impairment test it was concluded that the recoverable amount was not lower than the carrying amount, hence no impairment losses are required to be recognised.

The recoverable amount was determined on the basis of the fair value estimated using the most recent financial plans and the following assumptions:

Entity generating cash flows	Discount rate	Terminal growth rate
EMC	6.9%	3.5%

As a result of the test, no impairment loss was recognized. The table below shows the surplus of the recoverable amount over the carrying amount and the maximum discount rates as well as minimum terminal growth rate, at the level of which the carrying amount of EMC shares equals its recoverable amount.

Entity generating cash flows	Surplus	Marginal value of discount rate	Marginal value of discount rate after the forecast period
EMC	783	6.93%	3.47%

33. Financial assets

In 2014 and in 2013, no financial instruments were reclassified from portfolios carried at fair value to those carried at cost or amortized cost.

33.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2014			31 December 2013		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	19,983,689	19,983,689	23,524,392	18,859,902	18,859,902	19,796,739
Debt instruments	19,983,689	19,983,689	23,524,392	18,859,902	18,859,902	19,796,739
Government securities	19,796,986	19,796,986	23,320,298	18,633,511	18,633,511	19,559,211
Fixed rate	18,555,389	18,555,389	22,082,026	17,589,984	17,589,984	18,545,453
Floating rate	1,241,597	1,241,597	1,238,272	1,043,527	1,043,527	1,013,758
Other	186,703	186,703	204,094	226,391	226,391	237,528
Listed on a regulated market	63,909	63,909	72,889	105,509	105,509	109,393
Fixed rate	63,909	63,909	72,889	105,509	105,509	109,393
Not listed on a regulated market	122,794	122,794	131,205	120,882	120,882	128,135
Floating rate	122,794	122,794	131,205	120,882	120,882	128,135
Total financial instruments held to maturity	19,983,689	19,983,689	23,524,392	18,859,902	18,859,902	19,796,739

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

Carrying amount of debt instruments held to maturity by redemption date as at 31 December 2013	up to 1 year	over 1 year up to 2 years	over 2 years up to 3 years	over 3 years up to 4 years	over 4 years up to 5 years	over 5 years	Total
Government securities	1,551,021	3,211,485	271,753	2,554,990	59,603	10,984,659	18,633,511
Fixed rate	1,551,021	3,211,485	110,506	2,287,248	34,460	10,395,264	17,589,984
Floating rate	-	-	161,247	267,742	25,143	589,395	1,043,527
Other	572	12,435	35,096	23,462	54,925	99,901	226,391
Listed on a regulated market	572	12,435	35,096	-	31,466	25,940	105,509
Fixed rate	572	12,435	35,096	-	31,466	25,940	105,509
Not listed on a regulated market	-	-	-	23,462	23,459	73,961	120,882
Floating rate	-	-	-	23,462	23,459	73,961	120,882
Total	1,551,593	3,223,920	306,849	2,578,452	114,528	11,084,560	18,859,902

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

Carrying amount of debt instruments held to maturity	31 December 2014				31 December 2013			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Government securities	19,762,959	18,830	15,197	19,796,986	18,435,340	116,159	82,012	18,633,511
Fixed rate	18,521,362	18,830	15,197	18,555,389	17,391,813	116,159	82,012	17,589,984
Floating rate	1,241,597	-	-	1,241,597	1,043,527	-	-	1,043,527
Other	102,876	83,827	-	186,703	102,939	123,452	-	226,391
Listed on a regulated market	52,504	11,405	-	63,909	52,506	53,003	-	105,509
Fixed rate	52,504	11,405	-	63,909	52,506	53,003	-	105,509
Not listed on a regulated market	50,372	72,422	-	122,794	50,433	70,449	-	120,882
Floating rate	50,372	72,422	-	122,794	50,433	70,449	-	120,882
Total	19,865,835	102,657	15,197	19,983,689	18,538,279	239,611	82,012	18,859,902

33.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2014			31 December 2013		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	2,982,164	n/a	2,982,164	1,916,984	n/a	1,916,984
Equity instruments	547,299	n/a	547,299	405,827	n/a	405,827
Listed on a regulated market	357,732	n/a	357,732	370,228	n/a	370,228
Not listed on a regulated market	189,567	n/a	189,567	35,599	n/a	35,599
Debt instruments	2,434,865	2,324,810	2,434,865	1,511,157	1,486,465	1,511,157
Government securities	1,922,939	1,828,110	1,922,939	1,134,622	1,127,859	1,134,622
Fixed rate	1,868,605	1,773,860	1,868,605	1,032,503	1,026,253	1,032,503
Floating rate	54,334	54,250	54,334	102,119	101,606	102,119
Other	511,926	496,700	511,926	376,535	358,606	376,535
Listed on a regulated market	272,564	263,117	272,564	132,570	124,937	132,570
Fixed rate	221,413	211,968	221,413	132,570	124,937	132,570
Floating rate	51,151	51,149	51,151	-	-	-
Not listed on a regulated market	239,362	233,583	239,362	243,965	233,669	243,965
Floating rate	239,362	233,583	239,362	243,965	233,669	243,965
Instruments for which fair value may not be determined	3,158	n/a	n/a	3,128	n/a	n/a
Equity instruments	3,158	n/a	n/a	3,128	n/a	n/a
Not listed on a regulated market	3,158	n/a	n/a	3,128	n/a	n/a
Financial instruments available for sale, total	2,985,322	n/a	n/a	1,920,112	n/a	n/a

Financial instruments available for sale	31 December 2014	31 December 2013
Short-term	612,755	221,542
Long-term	2,372,567	1,698,570
Total financial instruments available for sale	2,985,322	1,920,112

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

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

Carrying amount of debt financial instruments available for sale as at 31 December 2013	up to 1 year	over 1 year up to 2 years	over 2 years up to 3 years	over 3 years up to 4 years	over 4 years up to 5 years	over 5 years	Total
Government securities	158,210	217,568	197,348	156,158	59,452	345,886	1,134,622
Fixed rate	158,210	217,568	197,289	103,636	59,452	296,348	1,032,503
Floating rate	-	-	59	52,522	-	49,538	102,119
Other	-	82,522	9,289	13,619	-	271,105	376,535
Listed on a regulated market	-	82,522	9,289	13,619	-	27,140	132,570
Fixed rate	-	82,522	9,289	13,619	-	27,140	132,570
Not listed on a regulated market	-	-	-	-	-	243,965	243,965
Floating rate	-	-	-	-	-	243,965	243,965
Total	158,210	300,090	206,637	169,777	59,452	616,991	1,511,157

Financial instruments available for sale	31 December 2014					31 December 2013			
	PLN	EUR	LTL	Other	Total	PLN	EUR	Other	Total
Equity instruments	539,734	10,601	30	92	550,457	408,778	99	78	408,955
Listed on a regulated market	347,247	10,485	-	-	357,732	370,228	-	-	370,228
Not listed on a regulated market	192,487	116	30	92	192,725	38,550	99	78	38,727
Debt instruments	1,625,802	346,424	453,828	8,811	2,434,865	1,116,963	394,194	-	1,511,157
Government securities	1,357,136	103,164	453,828	8,811	1,922,939	845,858	288,764	-	1,134,622
Fixed rate	1,302,802	103,164	453,828	8,811	1,868,605	743,739	288,764	-	1,032,503
Floating rate	54,334	-	-	-	54,334	102,119	-	-	102,119
Other	268,666	243,260	-	-	511,926	271,105	105,430	-	376,535
Listed on a regulated market	29,304	243,260	-	-	272,564	27,140	105,430	-	132,570
Fixed rate	29,304	192,109	-	-	221,413	27,140	105,430	-	132,570
Floating rate	-	51,151	-	-	51,151	-	-	-	-
Not listed on a regulated market	239,362	-	-	-	239,362	243,965	-	-	243,965
Floating rate	239,362	-	-	-	239,362	243,965	-	-	243,965
Total	2,165,536	357,025	453,858	8,903	2,985,322	1,525,741	394,293	78	1,920,112

33.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2014 and 31 December 2013, the PZU Group entities were not parties to any contracts with embedded derivatives, the nature and the relating risks of which, would not be closely connected with the host contract.

Financial instruments measured at fair value through profit or loss	31 December 2014	31 December 2013
Instruments designated as such upon initial recognition	12,571,137	10,988,879
Equity instruments	1,482,597	817,007
Listed on a regulated market	1,443,739	791,919
Not listed on a regulated market	38,858	25,088
Debt instruments	11,088,540	10,171,872
Government securities	11,005,221	10,138,525
Fixed rate	9,814,334	9,175,313
Floating rate	1,190,887	963,212
Other	83,319	33,347
Listed on a regulated market	83,319	33,347
Fixed rate	83,319	33,347
Instruments held for trading	6,525,347	8,915,297
Equity instruments	4,463,405	5,081,854
Listed on a regulated market	1,572,464	2,528,806
Not listed on a regulated market	2,890,941	2,553,048
Debt instruments	1,515,539	3,573,400
Government securities	1,441,296	3,499,207
Fixed rate	1,409,570	3,473,888
Floating rate	31,726	25,319
Other	74,243	74,193
Not listed on a regulated market	74,243	74,193
Floating rate	74,243	74,193
Derivative Instruments	546,403	260,043
Total financial instruments measured at fair value through profit or loss – held for trading	19,096,484	19,904,176

Additional information on involvement in derivative instruments and related risks are presented in point 8.6.2

Financial instruments measured at fair value through profit or loss	31 December 2014	31 December 2013
Short-term	10,858,702	12,970,979
Long-term	8,237,782	6,933,197
Total financial instruments measured at fair value through profit or loss	19,096,484	19,904,176

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

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

Carrying amount of debt instruments measured at fair value through profit or loss by redemption date as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years up to 5 years	over 5 years	Total
Instruments classified as such upon initial recognition	527,985	192,344	2,278,299	1,995,778	993,229	4,184,237	10,171,872
Government securities	527,985	192,344	2,277,469	1,995,627	993,229	4,151,871	10,138,525
Fixed rate	527,985	192,344	2,231,404	1,138,457	993,229	4,091,894	9,175,313
Floating rate	-	-	46,065	857,170	-	59,977	963,212
Other	-	-	830	151	-	32,366	33,347
Listed on a regulated market	-	-	830	151	-	32,366	33,347
Fixed rate	-	-	830	151	-	32,366	33,347
Instruments held for trading	247,102	247,871	586,852	410,874	364,920	1,715,781	3,573,400
Government securities	247,102	247,871	586,852	359,838	341,763	1,715,781	3,499,207
Fixed rate	247,102	222,552	586,852	359,838	341,763	1,715,781	3,473,888
Floating rate	-	25,319	-	-	-	-	25,319
Other	-	-	-	51,036	23,157	-	74,193
Not listed on a regulated market	-	-	-	51,036	23,157	-	74,193
Floating rate	-	-	-	51,036	23,157	-	74,193
Total carrying amount of debt instruments measured at fair value through profit or loss by redemption date	775,087	440,215	2,865,151	2,406,652	1,358,149	5,900,018	13,745,272

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

¹⁾ including PLN 50,885 in RON

Financial instruments measured at fair value through profit or loss – designated as such upon initial recognition	31 December 2013					
	PLN	USD	EUR	LTL	Other	Total
Instruments classified as such upon initial recognition	10,182,335	307,754	260,651	8,262	202,216	10,988,879
Equity instruments	562,762	96,765	73,341	4,911	51,567	817,007
Listed on a regulated market	562,709	86,622	59,779	3,561	51,567	791,919
Not listed on a regulated market	53	10,143	13,542	1,350	-	25,088
Debt instruments	9,619,573	210,989	187,310	3,351	150,649	10,171,872
Government securities	9,587,207	210,911	186,407	3,351	150,649	10,138,525
Fixed rate	8,623,995	210,911	156,183	3,351	150,649 ¹⁾	9,175,313
Floating rate	963,212	-	-	-	-	963,212
Other	32,366	78	903	-	-	33,347
Listed on a regulated market	32,366	78	903	-	-	33,347
Fixed rate	32,366	78	903	-	-	33,347
Not listed on a regulated market	-	-	-	-	-	-
Floating rate	-	-	-	-	-	-
Instruments held for trading	7,071,487	528,861	1,194,527	-	120,422	8,915,297
Equity instruments	4,377,944	296,739	351,871	-	55,300	5,081,854
Listed on a regulated market	1,972,270	229,562	271,674	-	55,300	2,528,806
Not listed on a regulated market	2,405,674	67,177	80,197	-	-	2,553,048
Debt instruments	2,583,280	175,132	814,988	-	-	3,573,400
Government securities	2,509,087	175,132	814,988	-	-	3,499,207
Fixed rate	2,483,768	175,132	814,988	-	-	3,473,888
Floating rate	25,319	-	-	-	-	25,319
Other	74,193	-	-	-	-	74,193
Not listed on a regulated market	74,193	-	-	-	-	74,193
Floating rate	74,193	-	-	-	-	74,193
Derivative instruments	110,263	56,990	27,668	-	65,122	260,043
Total financial instruments measured at fair value through profit or loss by currency	17,253,822	836,615	1,455,178	8,262	322,638	19,904,176

¹⁾ including PLN 108,686 thousand in RON and PLN 41,963 thousand in TRL

33.4 Loans and receivables

Loans and receivables	31 December 2014	31 December 2013
Short-term	9,286,581	10,351,969
Long-term	5,407,900	4,049,569
Loans and receivables, total	14,694,481	14,401,538

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

¹⁾ For more than 89% of term deposits with credit institutions the maturity date falls before the end of March 2015.

²⁾ Over 96% of loans and receivables are loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral.

As at 31 December 2014 the fair value of debt securities that was classified to Level II amounted PLN 3,091,685 thousand, while the fair value of loans amounted PLN 2,398,454 thousand. The fair value of buy sell-back transactions and term deposits at credit institutions that was classified to Level III did not significantly differ from their carrying amounts due to their short-term nature.

Loans and receivables as at 31 December 2013	Carrying value by redemption date						Total
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	
Debt instruments	56,997	29,898	291,704	700,816	100,224	909,253	2,088,892
Government securities	2,142	28,079	-	-	-	-	30,221
Fixed rate	2,142	28,079	-	-	-	-	30,221
Other	54,855	1,819	291,704	700,816	100,224	909,253	2,058,671
Listed on a regulated market	8,916	1,819	-	-	-	-	10,735
Fixed rate	8,916	1,819	-	-	-	-	10,735
Not listed on a regulated market	45,939	-	291,704	700,816	100,224	909,253	2,047,936
Floating rate	45,939	-	291,704	700,816	100,224	909,253	2,047,936
Other, including:	10,294,972	220,941	328,920	583,350	356,072	528,391	12,312,646
- buy sell-back transactions	3,203,344	-	-	-	-	-	3,203,344
- term deposits with credit institutions	7,091,470	175,671	119,866	-	-	-	7,387,007
- deposits with ceding undertakings	87	-	-	-	-	-	87
- loans	71	45,270	209,054	583,350	356,072	528,391	1,722,208 ¹⁾
Total	10,351,969	250,839	620,624	1,284,166	456,296	1,437,644	14,401,538

¹⁾ Over 99% loans and receivables are loans with collaterals such as pledges on shares, liability portfolios, as well as bank accounts, other loans or other forms of collateral.

As at 31 December 2013, the fair value of loans and receivables portfolio that was classified to Level III did not differ substantially from their carrying amounts.

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

Loans and receivables as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Total
Debt instruments	2,047,936	15,665	-	-	25,291	2,088,892
Government securities	-	15,665	-	-	14,556	30,221
Fixed rate	-	15,665	-	-	14,556	30,221
Other	2,047,936	-	-	-	10,735	2,058,671
Listed on a regulated market	-	-	-	-	10,735	10,735
Fixed rate	-	-	-	-	10,735	10,735
Not listed on a regulated market	2,047,936	-	-	-	-	2,047,936
Floating rate	2,047,936	-	-	-	-	2,047,936
Other, including:	12,121,423	49,892	17,596	13,874	109,861	12,312,646
- buy sell-back transactions	3,203,344	-	-	-	-	3,203,344
- term deposits with credit institutions	7,205,697	49,805	17,596	13,874	100,035	7,387,007
- deposits with ceding undertakings	-	87	-	-	-	87
- loans	1,712,382	-	-	-	9,826	1,722,208
Loans and receivables, total	14,169,359	65,557	17,596	13,874	135,152	14,401,538

34. Receivables, including insurance receivables

Receivables, including insurance receivables – carrying amount	31 December 2014	31 December 2013
Receivables from direct insurance, including:	1,710,083	1,384,325
- receivables from policyholders	1,557,003	1,245,337
- receivables from insurance intermediaries	127,271	113,941
- other receivables	25,809	25,047
Reinsurance receivables	28,682	18,828
Other receivables	1,330,048	1,268,811
Net receivables, including insurance receivables	3,068,813	2,671,964

Both as at 31 December 2014 and at 31 December 2013, the fair value of receivables did not significantly differ from their carrying value, primarily due to their short-term nature and the policy of creating write-downs for impairment losses.

Receivables, including insurance receivables – by contractual maturity	31 December 2014	31 December 2013
Up to 1 year	2,826,404	2,582,901
Over 1 year and up to 5 years	137,813	87,813
Over 5 years	104,596	1,250
Receivables, including insurance receivables – by contractual maturity	3,068,813	2,671,964

Receivables, including insurance receivables, by currencies as at 31 December 2014	PLN	USD	EUR	LTL	UAH	Other	Total
Receivables from direct insurance	1,509,391	132	97,154	92,338	11,068	-	1,710,083
Receivables from policyholders	1,369,247	132	86,110	90,459	11,055	-	1,557,003
Receivables from insurance intermediaries	117,315	-	9,552	391	13	-	127,271
Other receivables	22,829	-	1,492	1,488	-	-	25,809
Reinsurance receivables	16,143	2,597	5,602	-	4,170	170	28,682
Other receivables	1,037,918	165,148	108,838	1,448	2,857	13,839	1,330,048
Total receivables, including insurance receivables, by currencies,	2,563,452	167,877	211,594	93,786	18,095	14,009	3,068,813

Receivables, including insurance receivables, by currencies as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Other	Total
Receivables from direct insurance	1,330,874	1	1,335	32,379	18,872	864	1,384,325
Receivables from policyholders	1,194,600	1	1,028	30,630	18,847	231	1,245,337
Receivables from insurance intermediaries	111,305	-	307	1,671	25	633	113,941
Other receivables	24,969	-	-	78	-	-	25,047
Reinsurance receivables	16,682	944	1,182	-	20	-	18,828
Other receivables	1,099,118	72,197	81,523	334	878	14,761	1,268,811
Total receivables, including insurance receivables, by currencies,	2,446,674	73,142	84,040	32,713	19,770	15,625	2,671,964

34.1 Other receivables

Other receivables	31 December 2014	31 December 2013
Receivables from the State Budget, other than due to income tax	153,174	86,177
Receivables from Metro Projekt Sp. z o.o.	109,478	83,203
Receivables relating to prevention activities	64,647	53,506
Receivables from claims representative services	9,081	6,351
Receivables from security transactions and collateral deposits	758,394	902,019
Trade receivables	117,242	97,646
Receivables from immediate decommissioning charged to policies concluded with other insurance companies	34,086	-
Receivables from payments for the purchase of shares	20,890	-
Other	63,056	39,909
Total other receivables	1,330,048	1,268,811

Receivables from Metro Projekt sp. z o.o. and related matters have been described in point 57.6.

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

34.2 Receivables from operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2014	31 December 2013
Up to 1 year	155,027	80,389
Over 1 year and up to 5 years	389,566	225,460
Over 5 years	184,977	94,158
Total future minimum receivables from lease payments	729,570	400,007

35. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions	31 December 2014	31 December 2013
Unearned premiums reserve	302,173	210,026
Unexpired risks reserve	-	16
Provisions for claims outstanding, including:	296,900	170,375
- for claims reported	228,795	121,826
- for claims incurred but not reported (IBNR)	46,259	29,989
- for claims handling expenses	21,846	18,560
Provision for the capitalised value of annuities	154,042	146,180
Provision for bonuses and rebates	-	8
Total reinsurers' share in non-life technical provisions	753,115	526,605

Reinsurers' share in technical provisions by currency	31 December 2014	31 December 2013
PLN	690,347	477,692
EUR	35,319	19,912
UAH	27,205	28,915
Other	244	86
Total reinsurers' share in technical provisions by currency	753,115	526,605

Reinsurers' share in technical provisions	31 December 2014	31 December 2013
Short-term	199,156	131,580
Long-term	553,959	395,025
Reinsurers' share in technical provisions, total	753,115	526,605

36. Impairment of financial assets and receivables

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

¹⁾ including reversal of impairment losses in the amount of PLN 26,275 thousand due to a mortgage loan granted to Metro-Projekt Sp. z o.o. described in point 56.6.

²⁾ this item presents the transfer of impairment losses of PZU Lietuva's assets to assets held for sale due to the transaction described in point 59.9.1. The decrease of impairment losses was translated at average rate presented in Note 5.3.

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Changes in impairment losses on financial assets in the year ended 31 December 2013	Impairment losses – opening balance	Recognition of impairment losses in the statement of profit or loss	Reversal of impairment losses in the statement of profit or loss	Derecognition of impairment losses (sale, write-off etc.)	Exchange difference	Change in group composition	Impairment losses – closing balance
Available-for-sale financial instruments	164,273	110	-	(9,429)	(55)	-	154,899
- equity instruments	164,273	110	-	(9,429)	(55)	-	154,899
Financial assets held to maturity	-	-	-	-	(19)	1,221	1,202
- debt instruments	-	-	-	-	(19)	1,221	1,202
Loans and receivables	24,582	-	-	-	143	-	24,725
Term deposits with credit institutions	9,657	-	-	-	140	-	9,797
Loans	14,925	-	-	-	3	-	14,928
Receivables, including insurance receivables	606,747	58,572	(11,900)	(3,342)	(229)	1,731	651,579
Receivables from direct insurance	568,127	40,847	(10,111)	(2,687)	(182)	1,614	597,608
Reinsurance receivables	3,959	1,220	(438)	(122)	-	-	4,619
Other receivables	34,661	16,505	(1,351)	(533)	(47)	117	49,352
Reinsurers' share in technical provisions	8,037	1,348	(4,557)	-	-	-	4,828
Total	803,639	60,030	(16,457)	(12,771)	(160)	2,952	837,233

Credit quality of financial assets as at 31 December 2014	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	-	19,983,689	-	-	-	19,983,689	1,235	-	19,984,924
Available-for-sale financial instruments	-	2,434,865	-	-	-	2,434,865	-	-	2,434,865
Loans and receivables	193,144	14,501,059	278	-	-	14,694,481	25,020	-	14,719,501
Debt instruments	193,144	2,797,411	-	-	-	2,990,555	10,144	-	3,000,699
Buy sell-back transactions	-	3,250,173	-	-	-	3,250,173	-	-	3,250,173
Term deposits with credit institutions	-	6,143,503	278	-	-	6,143,781	-	-	6,143,781
Loans	-	2,309,972	-	-	-	2,309,972	14,876	-	2,324,848
Receivables, including insurance receivables	658,762	2,012,489	142,696	36,282	218,584	3,068,813	62,866	530,781	3,662,460
Receivables from direct insurance	654,682	791,053	133,175	34,199	96,974	1,710,083	35,250	530,651	2,275,984
Reinsurance receivables	98	20,042	6,266	461	1,815	28,682	5,021	-	33,703
Other receivables	3,982	1,201,394	3,255	1,622	119,795 ¹⁾	1,330,048	22,595	130	1,352,773
Reinsurers' share in technical provisions	79,569	673,546	-	-	-	753,115	17,531	-	770,646
Total	931,475	39,605,648	142,974	36,282	218,584	40,934,963	106,652	530,781	41,572,396

¹⁾ including PLN 109,478 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in 56.6.

Credit quality of financial assets as at 31 December 2013	Carrying amount of assets that are not past due		Carrying amount of past due assets			Carrying amount	Impairment losses		Gross book value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		individual	group	
Financial assets held to maturity	-	18,859,902	-	-	-	18,859,902	1,202	-	18,861,104
Available-for-sale financial instruments	-	1,511,157	-	-	-	1,511,157	-	-	1,511,157
Loans and receivables	-	14,401,538	-	-	-	14,401,538	24,725	-	14,141,262
Debt instruments	-	2,088,892	-	-	-	2,088,892	-	-	2,088,892
Buy sell-back transactions	-	3,203,344	-	-	-	3,203,344	-	-	3,203,344
Term deposits with credit institutions	-	7,387,007	-	-	-	7,387,007	9,797	-	7,396,804
Deposits with ceding undertaking	-	87	-	-	-	87	-	-	87
Loans	-	1,722,208	-	-	-	1,722,208	14,928	-	1,737,136
Receivables, including insurance receivables	215,334	2,064,538	148,616	27,267	216,209	2,671,964	90,974	560,605	3,323,543
Receivables from direct insurance	207,110	893,232	145,401	25,953	112,629	1,384,325	37,114	560,494	1,981,933
Reinsurance receivables	1,107	17,692	-	-	29	18,828	4,619	-	23,447
Other receivables	7,117	1,153,614	3,215	1,314	103,551 ¹⁾	1,268,811	49,241	111	1,318,163
Reinsurers' share in technical provisions	38,870	487,735	-	-	-	526,605	4,828	-	531,433
Total	254,204	37,324,870	148,616	27,267	216,209	37,971,166	121,729	560,605	38,653,500

¹⁾ including PLN 83,203 thousand due to a mortgage loan to Metro-Projekt sp. z o.o. described in point 56.6.

37. Estimated subrogations and salvages

Estimated subrogations, salvages and subsidies	31 December 2014	31 December 2013
Estimated subrogations	123,617	128,524
Estimated salvages	3,645	1,426
Total	127,262	129,950

Estimated subrogations, salvages and subsidies	31 December 2014	31 December 2013
Short-term	57,162	55,369
Long-term	70,100	74,581
Total	127,262	129,950

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

38. Deferred tax assets

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

¹⁾ this item presents the transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in 59.9.1. The decrease of assets was converted at average rate described in Note 5.3.

Changes in deferred tax assets in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Change in group composition	Exchange difference	Other changes	Closing balance
Financial instruments	(3,216)	400	334	(23)	3,033	528
Receivables	459	(186)	65	4	-	342
Property	-	2,689	-	-	-	2,689
Provisions for employee benefits	138	(9)	2	(2)	-	129
Provision for bonuses and deductions for the bonus fund	288	108	-	-	-	396
Other provisions and liabilities	3,564	(82)	62	(38)	-	3,506
Tax losses to be used in future periods	4,508	(3,845)	15	-	7	685
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1,679	(273)	-	-	-	1,406
Tax allowance regarding operations in the special economic zone	6,543	725	-	-	-	7,268
Total deferred tax assets	13,963	(473)	478	(59)	3,040	16,949

For all consolidated entities participating in the Tax Capital Group (the "TCG"), deferred tax assets and provisions are offset.

As at 31 December 2014 undisclosed deferred tax assets related to tax losses which, were as follows:

- in Link4: PLN 16,846 thousand;
- in PZU Lietuva: PLN 10,429 thousand (as at 31 December 2013: PLN 11,321 thousand);
- in PZU Lietuva Gyvybes Draudimas PLN 12,292 thousand (as at 31 December 2013: PLN 12,109 thousand).

Losses in Lithuanian companies can be realised at a time that is not prescribed by the provisions of law. Tax loss on Link4 can be realised during one year (PLN 4,441 thousand) and up to 5 years (PLN 12,405 thousand). These periods will be counted from the moment in which Link4 ceases to be part of the TCG (not earlier than the end of 2017).

39. Current income tax receivables

Current income tax receivables	31 December 2014	31 December 2013
Short-term	368	34,895
Long-term	-	-
Total current income tax receivables	368	34,895

40. Deferred acquisition costs

Deferred acquisition costs	31 December 2014	31 December 2013
Short-term	644,088	548,857
Long-term	67,978	60,962
Total deferred acquisition costs	712,066	609,819

40.1 Deferred acquisition costs – non-life insurance

Change in deferred acquisition costs in non-life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	546,476	512,890
Deferred acquisition costs	689,604	571,978
Depreciation for the period recognized in the statement of profit or loss	(572,310)	(538,131)
Transfer of PZU Lietuva's assets to assets held for sale due to the transaction described in point 60.7. ¹⁾	(15,136)	-
Exchange difference	(4,183)	(261)
Carrying amount – closing balance	644,451	546,476

¹⁾ The decrease of deferred acquisition expenses was translated at average rate described in Note 5.3.

40.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2014	1 January – 31 December 2013
Carrying amount – opening balance	63,343	61,599
Deferred acquisition costs	5,578	3,367
Depreciation for the period recognized in the statement of profit or loss	(1,432)	(4,719)
Change in group composition	-	3,156
Exchange difference	126	(60)
Carrying amount – closing balance	67,615	63,343

41. Other assets

Other assets	31 December 2014	31 December 2013
Reinsurance settlements	79,010	63,272
IT expenses	25,963	18,202
Inventories:	84,762	93,240
- materials	28,528	39,572
- products and goods	55,720	53,422
- claim salvages	514	246
Other assets	45,515	20,735
Total other assets	235,250	195,449

Other assets	31 December 2014	31 December 2013
Short-term	229,056	192,664
Long-term	6,194	2,785
Total other assets	235,250	195,449

42. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	31 December 2014	31 December 2013
Cash in hand and at bank	323,675	566,764
Other cash	332	2,393
Total cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	324,007	569,157

Notes to the consolidated cash flow statement

The consolidated cash flow statement includes Prevention Funds as cash not available for use. Pursuant to Polish laws and the internal regulations adopted by the PZU Group entities on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities.

43. Assets held for sale

Assets held for sale before reclassification	31 December 2014	31 December 2013
Groups held for sale	188,747	-
Assets	440,761	-
Intangible assets	4,745	-
Tangible assets	6,864	-
Financial assets	342,639	-
Receivables, including insurance receivables	32,106	-
Reinsurers' share in technical provisions	19,864	-
Estimated subrogations	6,988	-
Deferred tax assets	1,591	-
Deferred acquisition costs	15,399	-
Accruals	2,216	-
Other assets	2	-
Cash and cash equivalents	8,347	-
Liabilities directly associated with assets held for sale	252,014	-
Technical provisions	215,057	-
Provisions for employee benefits	1,464	-
Other liabilities	28,721	-
Accruals and deferred income	6,772	-
Other assets held for sale	165,849	178,897
Tangible assets	51,534	55,786
Investment property	114,315	123,111
Assets and asset groups held for sale	606,610	178,897
Liabilities directly associated with assets qualified as held for sale	252,014	-

The item "Groups held for sale" include assets and liabilities of PZU Lietuva, which will be sold in a transaction described in Note 59.9.1. The sale price of PZU Lietuva shares is higher than the value of the net assets held for sale, that is why they have not been revaluated to fair value less the sale costs.

"Investment property" presents property held by PZU and PZU Życie for sale as part of the portfolio optimization project.

44. Issued share capital and other equity attributable to the equity holders of the parent entity

44.1 Share capital

All shares are paid in full.

As at 31 December 2014 and 31 December 2013

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

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

44.1.1. Appropriation of profit of the parent entity

As regards the distributable profit for 2014 and the preceding years, only the profit disclosed in the separate financial statements of the parent entity, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

44.1.1.1. Appropriation of profit for 2013

On 13 May 2014, the Management Board of PZU adopted a resolution concerning the appropriation of profit for the 2013 financial year, recommending payment of dividend of PLN 4,663,024 thousand, i.e. PLN 54 per share.

On 13 May 2014, the request of the Management Board of PZU was approved by the Supervisory Board of PZU and presented to the Annual General Meeting for consideration. On 17 June 2014, the Annual General Meeting of PZU decided on the distribution of the net profit for 2013 in the amount of PLN 5,106,345 thousand in the following manner:

- PLN 4,663,024 thousand for the payment of dividends to shareholders, i.e. PLN 54 per share;
- PLN 433,321 thousand for the supplementary capital;
- PLN 10,000 thousand for the Company's Social Benefits Fund.

Given the advance payment made on 19 November 2013, towards the dividend expected at the end of 2013 in the amount of PLN 1,727,046 thousand, i.e. PLN 20.00 per share, the remaining part of the dividend payable in 2014 amounted to PLN 2,935,978 thousand, i.e. PLN 34.00 per share.

The ex-dividend date for the remaining dividend was set for 17 September 2014. The dividend payment date was set as follows:

- PLN 1,467,989 thousand, i.e. PLN 17 per share was paid on 8 October 2014;
- PLN 1,467,989 thousand, i.e. PLN 17 per share was paid on 15 January 2015;

44.1.1.2. Appropriation of profit for 2014

By the date of signing of consolidated financial statements, the Management Board of PZU had not adopted a resolution concerning appropriation of profit for 2014.

44.2 Supplementary capital

Supplementary capital	31 December 2014	31 December 2013
Share premium	538,139	538,139
Division of results of the PZU Group entities	9,070,903	8,270,646
Other	69,879	47,214
Total supplementary capital	9,678,921	8,855,999

44.3 Revaluation reserve

Revaluation reserve	31 December 2014	31 December 2013
Measurement of available-for-sale financial instruments	127,260	118,785
Property reclassified from property, plant and equipment to investment property	121,283	123,512
Total revaluation reserve	248,543	242,297

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	118,785	238,886
Changes	8,475	(120,101)
- change in fair value	11,931	174,973
- sale	(3,456)	(295,074)
Closing balance	127,260	118,785

44.4 Exchange differences from translation

Exchange differences from translation	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	(37,737)	(38,004)
Changes in the period:	2,287	267
Lietuvos Draudimas AB	6,164	-
AAS Balta	5,043	-
PZU Ukraine	(5,519)	(357)
PZU Ukraine Life	(4,472)	(306)
Pozostałe	1,071	-
Closing balance	(35,450)	(37,737)

45. Technical provisions

Technical provisions	31 December 2014	31 December 2013
Technical provisions – non-life insurance	18,410,647	16,242,254
Unearned premiums reserve	5,133,390	4,428,845
Unexpired risks reserve	19,257	8,770
Outstanding claims provisions	7,258,764	6,041,030
Provisions for the capitalized value of annuities	5,997,595	5,761,332
Provisions for bonuses and rebates for the insured	1,641	2,277
Technical provisions – life insurance	21,756,238	21,082,162
Unearned premiums reserve	97,456	102,396
Life insurance provision	16,281,625	16,048,191
Outstanding claims provisions	511,587	545,751
Provisions for bonuses and rebates for the insured	650	616
Other technical provisions	439,364	477,987
Unit-linked reserve	4,425,556	3,907,221
Total technical provisions	40,166,885	37,324,416

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Note 5.17.2.2), which are as follows:

Technical provisions for old portfolio	31 December 2014	31 December 2013
Life insurance provisions	471,174	485,757
Other technical provisions	194,623	199,699
- provisions for low interest rates	123,273	127,149
- provisions for litigations	71,350	72,550
IBNR and RBNP reserve	2,298	2,873
Total technical provisions – old portfolio	668,095	688,329

45.1 Technical provisions – non-life insurance

Gross technical provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2014	31 December 2013
Accident and sickness insurance (group 1 and 2)	406,557	383,967
Motor third-party liability insurance (group 10)	11,620,451	10,452,238
Other motor insurance (group 3)	1,865,335	1,664,589
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	113,307	70,633
Insurance against fire and other damage to property (groups 8, 9)	1,681,882	1,377,179
Third-party liability insurance (groups 11, 12, 13)	2,252,799	1,947,727
Credit insurance and suretyship (groups 14, 15)	162,080	135,806
Assistance (group 18)	151,905	121,669
Legal protection (group 17)	2,782	2,627
Other (group 16)	153,549	85,819
Total technical provisions	18,410,647	16,242,254

Technical provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2014	31 December 2013
Accident and sickness insurance (group 1 and 2)	405,573	383,795
Motor third-party liability insurance (group 10)	11,366,417	10,246,315
Other motor insurance (group 3)	1,829,788	1,635,612
Sea, aircraft and transport insurance (groups 4, 5, 6, 7)	87,795	59,173
Insurance against fire and other damage to property (groups 8, 9)	1,501,794	1,230,550
Third-party liability insurance (groups 11, 12, 13)	2,172,237	1,896,918
Credit insurance and suretyship (groups 14, 15)	94,747	86,202
Assistance (group 18)	147,603	121,126
Legal protection (group 17)	2,781	2,627
Other (group 16)	48,852	53,417
Total technical provisions	17,657,587	15,715,735

Technical provisions – non-life insurance	31 December 2014	31 December 2013
Short-term	4,411,180	3,245,725
Long-term	13,999,467	12,996,529
Total technical provisions	18,410,647	16,242,254

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

Change in provisions

Change in unearned premiums reserve in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	4,428,845	(209,940)	4,218,905	4,435,516	(190,865)	4,244,651
Increase (decrease) in provisions for policies concluded in the current year	4,335,362	(258,368)	4,076,994	4,220,358	(160,456)	4,059,902
Increase (decrease) in provisions for policies concluded in previous years	(4,157,746)	174,566	(3,983,180)	(4,225,756)	140,844	(4,084,912)
Exchange differences during the period	(18,556)	5,948	(12,608)	(1,290)	537	(753)
Change in group composition	642,510	(19,282)	623,228	17	-	17
Transfers to assets held for sale in accordance with IFRS 5 ¹⁾	(97,025)	4,958	(92,067)	-	-	-
Closing balance	5,133,390	(302,118)	4,831,272	4,428,845	(209,940)	4,218,905

¹⁾ Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

Change in unexpired risk reserve in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	8,770	(16)	8,754	8,202	(5)	8,197
Increase (decrease) in provisions for policies concluded in the current year	17,077	12	17,089	5,546	-	5,546
Increase (decrease) in provisions for policies concluded in previous years	(5,316)	-	(5,316)	(5,016)	(12)	(5,028)
Exchange differences during the period	(561)	4	(557)	38	1	39
Change in group composition	12,739	-	12,739	-	-	-
Transfers to assets held for sale in accordance with IFRS 5	(13,452)	-	(13,452)	-	-	-
Closing balance	19,257	-	19,257	8,770	(16)	8,754

¹⁾ Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

Change in outstanding claims provisions in non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance, including:	6,041,030	(170,375)	5,870,655	5,362,089	(304,051)	5,058,038
- for claims reported	2,072,193	(121,826)	1,950,367	1,970,611	(234,276)	1,736,335
- for claims incurred but not reported (IBNR)	2,615,113	(29,989)	2,585,124	2,413,008	(55,337)	2,357,671
- for claims handling expenses	1,353,724	(18,560)	1,335,164	978,470	(14,438)	964,032
Paid benefits concerning claims incurred in previous years, including:	(1,575,921)	54,322	(1,521,599)	(1,506,275)	265,311	(1,240,964)
- paid claims and benefits	(1,313,456)	50,481	(1,262,975)	(1,276,357)	261,990	(1,014,367)
- claims handling costs	(262,465)	3,841	(258,624)	(229,918)	3,321	(226,597)
Increase (decrease) in provisions, including:	2,450,810	(167,606)	2,283,204	2,185,105	(130,145)	2,054,960
- for losses incurred in the current year	2,041,127	(44,022)	1,997,105	1,895,793	(35,684)	1,860,109
- for losses incurred in previous years	409,683	(123,584)	286,099	289,312	(94,461)	194,851
Other changes	2	8,789	8,791	-	(1,834)	(1,834)
Exchange differences during the period	(10,665)	6,304	(4,361)	111	344	455
Change in group composition	454,412	(42,844)	411,568	-	-	-
Transfers to assets held for sale in accordance with IFRS 5	(100,904)	14,510	(86,394)	-	-	-
Closing balance	7,258,764	(296,900)	6,961,864	6,041,030	(170,375)	5,870,655
- for claims reported	2,704,345	(228,795)	2,475,550	2,072,193	(121,826)	1,950,367
- for claims incurred but not reported (IBNR)	2,868,611	(46,259)	2,822,352	2,615,113	(29,989)	2,585,124
- for claims handling expenses	1,685,808	(21,846)	1,663,962	1,353,724	(18,560)	1,335,164

¹⁾ Transfer of PZU Lietuva's provisions to liabilities held for sale due to the transaction described in Note 59.9.1. The decrease of reserves was translated at average rate presented in Note 5.3.

Change in provisions for the capitalized value of annuities– non-life insurance	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	5,761,332	(146,180)	5,615,152	5,660,281	(254,413)	5,405,868
Paid claims concerning losses incurred in previous years	(182,358)	15,853	(166,505)	(179,944)	3,839	(176,105)
Increase (decrease) in provisions for losses incurred in the previous years	76,457	(17,444)	59,013	23,321	104,997	128,318
Changes in assumptions resulting from technical interest rate changes	(17,284)	446	(16,838)	(16,981)	775	(16,206)
Increase in provisions for losses incurred in the current year	278,344	(587)	277,757	274,655	-	274,655
Other changes	-	3,916	3,916	-	(1,378)	(1,378)
Exchange differences during the period	(8)	40	32	-	-	-
Change in group composition	81,112	(10,086)	71,026	-	-	-
Closing balance	5,997,595	(154,042)	5,843,553	5,761,332	(146,180)	5,615,152

45.2 Life insurance technical provisions

Change in life insurance provision – insurance contracts	1 January - 31 December 2014			1 January - 31 December 2013		
	Gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	16,526,794	-	16,526,794	16,208,275	-	16,208,275
Increase (decrease) in provisions related to current year policies	490,085	-	490,085	564,859	-	564,859
Increase (decrease) in provisions related to prior year policies	(306,608)	-	(306,608)	(260,234)	-	(260,234)
Changes in assumptions resulting from technical interest rate changes	45,395	-	45,395	17,701	-	17,701
Exchange differences	(34,027)	-	(34,027)	(3,807)	-	(3,807)
Closing balance	16,721,639	-	16,721,639	16,526,794	-	16,526,794

Change in life unit-linked insurance provision, gross	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	3,907,221	-	3,907,221	3,113,798	-	3,113,798
Increases in the fund due to premiums	1,045,805	-	1,045,805	1,082,943	-	1,082,943
Payments deducted from the fund for risk, administration and other	(90,026)	-	(90,026)	(71,333)	-	(71,333)
Revenue from the fund's investments	147,597	-	147,597	123,774	-	123,774
Decreases in the fund due to claims, redemptions, etc.	(547,991)	-	(547,991)	(354,088)	-	(354,088)
Other decreases	(60,274)	-	(60,274)	(43,826)	-	(43,826)
Other increases	23,224	-	23,224	55,953	-	55,953
Closing balance	4,425,556	-	4,425,556	3,907,221	-	3,907,221

Change in provisions for outstanding claims, gross	1 January - 31 December 2014			1 January - 31 December 2013		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
RBNP at the beginning of the period	138,366	-	138,366	115,394	-	115,394
IBNR at the beginning of the period	407,385	-	407,385	400,962	-	400,962
Total RBNP and IBNR at the beginning of the period	545,751	-	545,751	516,356	-	516,356
Provisions for claims applied during the year	(523,413)	-	(523,413)	(516,356)	-	(516,356)
Provisions for claims created during the year	489,249	-	489,249	545,751	-	545,751
Total RBNP and IBNR at the end of the period	511,587	-	511,587	545,751	-	545,751
RBNP at the end of the period	112,728	-	112,728	138,366	-	138,366
IBNR at the end of the period	398,859	-	398,859	407,385	-	407,385

46. Investment contracts

Investment contracts – carrying amount	31 December 2014	31 December 2013
Investment contracts with guaranteed and fixed terms and conditions	520,840	1,250,492
- measured at amortised cost	520,840	1,250,492
Unit-linked investment contracts	587,267	870,545
Total investment contracts – carrying amount	1,108,107	2,121,037

Upon initial recognition, unit-linked investment contracts were classified as financial liabilities measured at fair value through profit or loss.

Total expected cash flows from investment contracts	31 December 2014	31 December 2013
Up to 1 year	989,481	1,890,179
Over 1 year and up to 5 years	124,908	243,996
Total	1,114,389	2,134,175

As at 31 December 2014, the fair value of liabilities under investment contracts with guaranteed and fixed terms and conditions amounted PLN 520,383 thousand (as at 31 December 2013: PLN 1,253,256 thousand).

Financial assets related to investment contracts:

- with guaranteed and fixed terms and conditions – bank deposits presented as “Loans and receivables – term deposits with credit institutions” described in point 33.4 or treasury bonds classified mainly as held to maturity;
- unit-linked – include mainly units in investment funds, recognized as “Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not listed on a regulated market”, derivative instruments recognized as “Financial instruments measured at fair value through profit or loss – held for trading – derivative instruments” (presented in point 33.3), and bank deposits.

47. Provisions for employee benefits

Due to the adopted accounting policy and the fact that the PZU Group entities did not separate defined benefit assets, the carrying amount of defined benefit provisions is equal to the current value of the corresponding liabilities.

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Note 6.2.5.

Provisions for employee benefits	31 December 2014	31 December 2013
Provision for employee leaves	71,923	60,094
Post-employment benefits	44,384	31,365
- provisions for retirement severance pay	20,923	12,141
- provisions for death benefits	23,461	19,224
Other long-term employee benefits	3,763	31,921
Total provisions for employee benefits	120,070	123,380

Net income and expenses recognized in the statement of profit or loss related to provisions for employee benefits	1 January – 31 December 2014	1 January – 31 December 2013
Net revenue (expenses) recognized in profit or loss	(1,505)	(4,574)
Defined benefit plans	(1,492)	(5,700)
- provisions for retirement severance pay	(1,896)	(2,654)
- provisions for death benefits	404	(3,046)
Other long-term employee benefits	(13)	1,126
Net revenue (expenses) recognized in other comprehensive income	(8,438)	902
Defined benefit plans	(7,933)	902
- provisions for retirement severance pay	(3,306)	862
- provisions for death benefits	(4,627)	40
Other long-term employee benefits	(505)	-
Total net income and expenses recognized in the statement of profit or loss related to provisions for employee benefits	(9,943)	(3,672)

47.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	12,141	12,145
Changes recognized in profit or loss	1,896	2,654
- current service cost	1,561	1,084
- past service cost	185	440
- interest income or expense	150	1,130
Remeasurement of provision (changes recognized in other comprehensive income)	3,306	(862)
- actuarial profits and losses resulting from changes in demographic assumptions	(271)	113
- actuarial profits and losses resulting from changes in financial assumptions	3,577	(975)
Exchange differences	56	-
Benefits paid	(548)	(1,806)
Change in group composition	4,072	10
Closing balance	20,923	12,141

Total expected cash flows from retirement benefits since the end of the financial year	31 December 2014	31 December 2013
Up to 3 months	608	64
Over 3 months and up to 1 year	908	494
Over 1 year and up to 5 years	3,274	3,040
Over 5 years	69,207	65,092
Total	73,997	68,690

47.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January – 31 December 2014	1 January – 31 December 2013
Opening balance	19,224	16,460
Changes recognized in profit or loss	(404)	3,046
- current service cost	2,195	1,369
- past service cost	(2,685)	1,334
- interest income or expense	86	343
Remeasurement of provision (changes recognized in other comprehensive income)	4,627	(40)
- actuarial profits and losses resulting from changes in demographic assumptions	227	896
- actuarial profits and losses resulting from changes in financial assumptions	4,400	(936)
Benefits paid	(81)	(242)
Change in group composition	95	-
Closing balance	23,461	19,224

Total expected cash flows from death benefits since the end of the financial year	31 December 2014	31 December 2013
Up to 3 months	299	56
Over 3 months and up to 1 year	948	957
Over 1 year and up to 5 years	6,043	5,798
Over 5 years	79,873	76,972
Total	87,163	83,783

48. Other provisions

Other provisions	31 December 2014	31 December 2013
Short-term	177,400	177,307
Long-term	13,806	15,599
Total other provisions	191,206	192,906

Changes in other provisions in the year ended 31 December 2014	Opening balance	Increase	Utilisation	Release	Combinations	Exchange differences	Closing balance
Restructuring provision	-	17,687	(8,333)	-	-	-	9,354
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	(916)	-	-	-
Provision for disputed claims and potential liabilities under insurance contracts	3,075	289	-	(2,583)	-	-	781
Provision for the Office of Competition and Consumer Protection penalties	119,549	2	-	-	-	-	119,551
Provision for exit costs of the GraphTalk project	50,944	509	-	(28,785)	-	-	22,668
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	7,401	-	(167)	-	-	-	7,234
Other	11,021	14,878	(4,506)	(2,489)	12,522	192	31,618
Total other provisions	192,906	33,365	(13,006)	(34,773)	12,522	192	191,206

Changes in other provisions in the year ended 31 December 2013	Opening balance	Increase	Utilisation	Release	Closing balance
Provision for restructuring expenses	58,194	-	(39,568)	(18,626)	-
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	2,687	388	-	-	3,075
Provision for the Office of Competition and Consumer Protection penalties	138,310	-	(5,613)	(13,148)	119,549
Provision for exit costs of the GraphTalk project	49,925	1,483	-	(464)	50,944
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8,836	477	(329)	(1,583)	7,401
Other	8,588	6,688	(103)	(4,152)	11,021
Total other provisions	267,456	9,036	(45,613)	(37,973)	192,906

The item "Provision for the Office of Competition and Consumer Protection penalties" is described in points 56.2 and 56.3.

Provisions for restructuring expenses are described in point 59.2.

Provision for the GraphTalk project exit costs in PZU Życie

The total "Provision for the GraphTalk project exit costs" includes the provision created for the costs of closing the IT GraphTalk project.

The provision was established in relation to completion of the GraphTalk project and failure to meet economic objectives. Additionally the provisions amount includes estimation of potential liabilities due to litigation with CSC Computer Sciences Sp. z o.o. – aspect described in point 56.4.

Provision for PTE's reimbursement of fees collected from contributions overpaid by ZUS

A detailed method for determining and settlement of undue premiums to be returned is regulated in Article 100a of the Act on organisation and operation of pension funds of 28 August 1997 (Journal of Laws of 2013 item 989 as amended) pursuant to which if premiums unduly received are returned, the nominal amount of the service fee collected by the pension society managing a given fund should be returned to the Social Insurance Institution as well.

Since 2008, PTE PZU has been maintaining a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The calculation is made on the basis of information provided by the Social Security Institution for the years 1999 - 2013 (in 2014, the Social Security Institution has not provided any new information) and the rate of payment of premiums charged by PTE PZU.

Due to the fact that, as at signing of the consolidated financial statements, not all required information has been received from the Social Security Institution, it is not possible to specify the date of return of the fees on premiums.

49. Deferred tax liabilities

Changes in deferred tax liabilities in the year ended 31 December 2014	Opening balance	Changes recognized in the statement of profit or loss	Changes recognized in other comprehensive income	Change in group composition	Exchange differences	Closing balance
Financial instruments	246,912	27,175	1,743	5,716	-	281,546
Subrogation receivables	(2,399)	395	-	-	-	(2,004)
Property	13,271	20,807	3,166	(493)	(1)	36,750
Deferred acquisition costs	110,706	10,770	-	-	-	121,476
Accrued revenue and reinsurance costs	(20,032)	(3,972)	-	-	-	(24,004)
Provisions for employee benefits	(21,499)	2,889	(1,526)	(544)	-	(20,680)
Provision for bonuses	(41,199)	(2,123)	-	(251)	-	(43,573)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(52,389)	5,038	-	(8)	-	(47,359)
Other provisions and accruals	(108,108)	3,709	-	-	-	(104,399)
Prevention Fund	31,397	(12,921)	-	-	-	18,476
Equalisation provision	112,116	1,427	-	-	-	113,543
Provision for restructuring expenses	-	(1,777)	-	-	-	(1,777)
Other differences	(13,377)	4,835	-	78,204	776	70,438
Total deferred tax liabilities	255,399	56,252	3,383	82,624	775	398,433

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2014
(in PLN '000)

Changes in deferred tax liabilities in the year ended 31 December 2013	Opening balance	Changes recognized in the statement of profit or loss	Changes recognized in other comprehensive income	Change in group composition	Other changes	Closing balance
Financial instruments	358,165	(68,702)	(42,766)	(544)	759	246,912
Subrogation receivables	(3,706)	1,307	-	-	-	(2,399)
Property	29,609	(18,394)	3,185	(1,129)	-	13,271
Deferred acquisition costs	110,752	(46)	-	-	-	110,706
Accrued revenue and reinsurance costs	(21,208)	1,176	-	-	-	(20,032)
Provisions for employee benefits	(19,536)	(1,829)	-	(134)	-	(21,499)
Provision for bonuses	(41,488)	1,663	-	(1,374)	-	(41,199)
Liabilities due to natural persons (under personal service contracts, agency contracts etc.)	(41,074)	(11,307)	-	(8)	-	(52,389)
Other provisions and accruals	(107,977)	(864)	-	733	-	(108,108)
Prevention Fund	15,326	16,071	-	-	-	31,397
Equalisation provision	110,915	1,201	-	-	-	112,116
Other differences	(32,221)	19,018	-	(246)	72	(13,377)
Total deferred tax liabilities	357,557	(60,706)	(39,581)	(2,702)	831	255,399

Compensation of deferred tax assets and liabilities of companies included in the TCG is described in point 38.

50. Current income tax liabilities

As at 31 December 2014 and 31 December 2013, all current income tax liabilities were short-term.

51. Liabilities arising from the issue of own debt instruments

On 3 July 2014, PZU (via its subsidiary, PZU Finance AB (publ)) emitted five-year eurobonds for the amount of EUR 500.000 thousand, with the redemption date of 3 July 2019. The issue price of one bond with a nominal value of EUR 100.000 amounted to EUR 99.407. The bonds were released on the regulated market of the Irish Stock Exchange on the basis of a prospectus approved by the Central Bank of Ireland. Standard & Poor's awarded these bonds a rating of "A-" for unsecured debt. Since 22 December 2014, bonds have also been traded on the Catalyst market.

The margin over mid-swap rate (the curve, which constitutes the average of the bid and ask curves for fixed-coupon bonds corresponding to the period of redemption of the bonds issued by PZU Finance AB (publ)) amounted to 85 bps, which resulted in the bond yield of 1.499%.

The bonds bear interest at a fixed interest rate of 1.375% per year and the coupon will be paid once a year.

The bonds have been classified as measured at amortized cost. The carrying amount of liabilities arising from the bonds amounted to PLN 2,127,527 thousand as at 31 December 2014. The fair value of this liability, estimated using a model, amounts to PLN 2,180,293 thousand.

Undiscounted cash flows from the issued debt securities	31 December 2014
Up to 1 year	29,303
Over 1 year and up to 5 years	2,248,363
Total	2,277,667

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

52. Other liabilities

Other liabilities	31 December 2014	31 December 2013
Accrued costs	743,655	638,382
Accrued costs of brokers' commissions	250,867	209,871
Accrued remuneration costs	131,759	121,415
Accrued costs from reinsurance	214,268	194,079
Accrued employee bonuses	94,558	84,064
Other	52,203	28,953
Deferred income	33,374	17,738
Other liabilities	8,584,248	8,695,294
Direct insurance liabilities	686,714	634,831
Reinsurance liabilities	94,384	53,738
Liabilities due to sell buy-back transactions	4,411,497	5,124,161
Liabilities from credits	219,452	227,353
Liabilities from loans	53,952	-
Liabilities to participants of consolidated investment funds	856,865	688,282
Liabilities to the State Budget, other than due to income tax	30,001	147,721
Public legal settlements:	25,701	23,195
Liabilities to employees	13,106	3,481
Insurance Guarantee Fund	11,794	10,231
Liabilities arising from financial instrument transactions	444,089	1,533,088
Liabilities to Shareholders (dividends)	1,471,120	3,321
Trade payables to suppliers	89,787	69,273
Estimated non-insurance liabilities	133,359	125,673
Other	42,427	50,946
Total other liabilities	9,361,277	9,351,414

As at 31 December 2014 and 31 December 2013 the fair value of other liabilities did not differ substantially from their carrying amount, due to the fact that over 98% of them are short-term liabilities.

Liabilities by maturity	31 December 2014	31 December 2013
Up to 1 year	9,190,166	9,190,851
Over 1 year and up to 5 years	166,961	158,458
Over 5 years	4,150	2,105
Total liabilities by maturity	9,361,277	9,351,414

52.1 Direct insurance liabilities

Direct insurance liabilities	31 December 2014	31 December 2013
Liabilities to policyholders	408,721	368,130
Liabilities to insurance intermediaries	172,492	164,948
Other insurance liabilities	105,501	101,753
Total direct insurance liabilities	686,714	634,831

52.2 Liabilities due to sell buy-back transactions

Transactions were secured with financial instruments, described in point 54.1.

Presented below is the basic characteristics of the sell buy-back transactions as at 31 December 2014.

Maturity dates of transactions	Carrying amount	Transaction currency	Carrying amount of assets pledged as security	Financial instrument pledged as security	Quantity
Up to 1 month	4,211,114	PLN	4,213,474	Treasury bonds	3,837,200
up to 6 months	200,383	PLN	199,889	Treasury bonds	189,450
Total	4,411,497		4,413,363		4,026,650

52.3 Liabilities from operating leases

The majority of liabilities from operating leases result from rental of retail and office space. PZU Group has a policy of concluding contracts for a limited period of 3 or 5 years with an option of extension.

Liabilities due to minimum operating lease fees	31 December 2014	31 December 2013
Up to 1 year	27,795	27,040
Over 1 year and up to 5 years	57,573	43,152
Over 5 years	7,856	5,792
Total liabilities due to minimum operating lease fees	93,224	75,984

Operating lease liabilities recognized in profit or loss for a given period	1 January – 31 December 2014	1 January – 31 December 2013
Minimum operating lease fees	98,827	61,088
Subleasing fees	(10)	(12)
Total	98,817	61,076

53. Notes to other inflows and outflows from operating activities

Other inflows from operating activities	1 January – 31 December 2014	1 January – 31 December 2013
Suspense accounts including outstanding contributions of fund members of PPE IKE and IP programmes	1,046,982	272,694
Inflows from the core business of non-insurance companies	524,014	568,423
Tax refunds (i.a. CIT, VAT)	106,621	140,205
Inflows from the liquidation of the additional part of the Guarantee Fund of PZU OPF	132,267	-
Other	261,169	266,973
Total	2,071,053	1,248,295

Other operating outflows	1 January – 31 December 2014	1 January – 31 December 2013
Suspense accounts including outstanding contributions of fund members of PPE, IKE and IP programmes	1,049,504	272,371
Gross premiums returns	438,798	503,028
Costs of the core business of non-insurance companies	607,718	498,996
Donations made	31,446	34,171
Taxes	283,339	35,056
Other	521,938	389,658
Total	2,932,743	1,733,280

54. Assets recognised as collateral of receivables, liabilities and contingent liabilities

54.1 Financial assets recognised as collateral of liabilities

As at 31 December 2014 the treasury bonds with the carrying amount of PLN 4,413,363 thousand (PLN 5,123,990 thousand, as at 31 December 2013) held by the companies in PZU Group were used as collateral of the sell buy-back transactions described in point 52.2.

54.2 Financial assets recognised as collateral for granted loans

As at 31 December 2014 and 31 December 2013, PZU and PZU Życie were party to buy sell-back transactions and granted loans secured on financial assets.

Information about the values of these transactions has been provided in point 33.4.

Tangible assets

As at 31 December 2014, assets held for sale were mortgaged up to the total amount of PLN 51,209 thousand (PLN 49,146 thousand, as at 31 December 2013).

55. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2014	31 December 2013
Contingent assets, including:	20,976	35,231
- guarantees and sureties received	20,976	21,259
- Other	-	13,972
Contingent liabilities	265,709	144,576
- guarantees and sureties issued	7,133	6,842
- disputed claims related to insurance	185,109	92,535
- other disputed claims	36,264	17,270
- other, including:	37,203	27,929
- potential liabilities arising from loan agreements entered into by the Armatura Group	34,115	27,622

55.1 Loan facility, loan collateral or guarantees granted by PZU or its subsidiaries

The guarantee issued by PZU in relation to the liabilities of PZU Finance AB (publ) arising from the bonds issued by the company, described in Note 51.

55.2 Potential litigation related to the continued family insurance

In 1998, proceedings before the Supreme Court regarding revaluation of the sum insured in continued family insurance were concluded, as a result of which PZU was obliged to pay claims exceeding the amount under the insurance contract. Additionally, in several cases district courts issue similar judgements.

PZU Życie is of the opinion, that the insured under individually continued family insurance policies have been entitled to increase the sum insured. Therefore, any claims regarding revaluation are groundless if the sum insured has not been increased. If in similar cases courts issue judgements on revaluation of claims, increasing the sum insured, it may have adverse consequences for the Polish insurance system as a whole. If in the future claims are filed or lawsuits brought by the insured against PZU Życie regarding continued family insurance, the Company will firmly oppose revaluation of claims above the sum insured specified in the insurance policy.

Therefore, the Management Board of PZU Życie believes, there are no reasonable grounds for disclosing any provisions for potential claims relating to the continued family insurance portfolio in the consolidated financial statements.

56. Litigation claims

The entities in PZU Group are parties in a number of court and arbitration disputes as well as administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings, involving PZU Group entities, are those related to own property. The proceedings and disputes are typical and repetitive and, individually are not significant for PZU Group in most cases.

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

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

In 2014 and by the date of submission of the consolidated financial statements, PZU Group entities did not take part in any proceedings before court, competent authority for arbitration proceedings or public administration authority concerning liabilities or debt of PZU or its direct or indirect subsidiary of singular value of at least 10% of the equity of PZU.

As at 31 December 2014, the total value of all 60,534 cases heard by courts, competent authority for arbitration proceedings or public administration authority involving the PZU Group entities amounted to PLN 3,056,350 thousand. The amount includes PLN 2,509,850 thousand of liabilities and PLN 546,500 thousand of debt of the PZU Group entities, which accounted for 20.36% and 4.43% of the equity of PZU respectively, calculated in line with PAS.

All information available at the date upon which the consolidated financial statements are signed have been taken into account regarding estimations of provisions, however that value may be subject to change in the future.

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

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

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

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

Through its ruling, on 22 January 2010, the District Court in Warsaw cancelled the aforementioned resolution. PZU appealed against the judgment in its entirety, including final appeal to the Supreme Court with respect to the aforementioned decision, which dismissed the cassation complaint on 27 March 2013. The judgment is final and it may not be appealed against.

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

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

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

On 17 December 2013, the District Court pronounced a judgement whereby the claims were accepted in their entirety and the costs of the proceedings were awarded from PZU to MSC. On 4 March 2014, PZU appealed against the judgement in its entirety. On 11 February 2015, the Appellate Court in Warsaw passed a judgement that changed the judgement of the District Court dated 17 December 2013 in its entirety, dismissed the action filed by MSC and ordered MSC to pay the costs of the proceedings. The judgement of the Appellate Court is final.

On 16 December 2014, MSC called PZU to pay PLN 264,865 thousand of compensation due to the cancellation of the resolution No 8/2007 of the General Meeting of Shareholders of PZU of 30 June 2007 on the distribution of profit of PZU for 2006. PZU refused to fulfil the obligation.

As at 31 December 2014, no changes in the presentation of PZU capitals were made that may result from cancellation of the resolution of the General Meeting of Shareholders on the distribution of profit for 2006, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company's Social Benefits Fund were not adjusted and no provisions were recognised against any potential additional claims resulting from cancellation of the above resolution.

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

On 17 December 2014, Wspólna Reprezentacja SA called PZU to pay the amount of PLN 56,281 thousand and the amount of PLN 618 thousand as claims compensation acquired from the shareholders as a response to their deprivation of the right to a share in the profit of PZU. PZU refused to fulfill the obligation.

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

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

On 19 January 2015, the District Court of Warsaw delivered a copy of a motion with attachments regarding the action initiated by Wspólna Reprezentacja SA for a summons to a conciliation hearing concerning the amount of PLN 56,281 thousand. The date of the hearing was set for 19 February 2015.

On 2 February 2015, the District Court of Warsaw delivered a copy of an application of MSC for a summons to a conciliation hearing concerning the amount of PLN 264,865 thousand. The claim covered in the application is tantamount to the request filed by MSC on 16 December 2014.

PZU is receiving other copies of motions for a summons to a conciliation hearing concerning settlement agreements consisting in the payment of the amount due to the share in the profit of PZU for 2006. Some of the proceedings have already ended.

PZU refused the conciliation proposal indicating that such claims did not exist and they would not be taken into account.

PZU is receiving single copies of requests for the payment of dividends or compensation. PZU consistently responds to such requests demanding their cancellation in their entirety.

56.2 Proceedings conducted by the Office of Competition and Consumer Protection ("UOKiK") against PZU

56.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting of:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with both the decision and its statement of reasons. After several years of proceedings, on 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection ("SOKiK") of 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644

thousand. The judgement of 6 November 2013 is final and was executed through the payment of PZU of the awarded financial penalty. 23 June 2014, PZU filed a cassation appeal to the Supreme Court against the judgement on 24 July 2014, PZU received a response of President of Office of Competition and Consumer Protection to its cassation appeal. On 28 January 2015, the Supreme Court issued the decision accepting the cassation appeal for consideration without setting a date for the hearing.

56.2.2. Fines imposed in 2011

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

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

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

and demanded that the practices be discontinued.

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

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU Życie appealed against the decision. At the hearing on 17 December 2014, the Appellate Court issued a decision suspending the above proceedings until the Supreme Court settles the legal issue that raises serious doubts regarding a different case pending before the Appellate Court.

Regardless of the initiated legal procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 11,287 thousand.

56.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic accident group insurance for children, youth and staff of educational institutions by dividing the market between the entities – the clients of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those clients. The Office demanded that the practices be discontinued.

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

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

- PZU and Maximus Broker did not conclude any agreement apart from the agreement concerning brokerage fees;
- the President of the Office of Competition and Consumer Protection is wrong in the understanding of insurance contracts concluded via a broker;

- the majority of insurance contracts concluded via Maximus Broker was concluded with insurance companies other than PZU;
- PZU and Maximus Broker cannot and could not carry out competitive activities in their markets.

On 22 October 2012, PZU received a response of President of Office of Competition and Consumer Protection to its appeal. The hearing, at which the appeal of PZU will be addressed, was scheduled for 13 March 2015.

Regardless of the initiated appellation procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 56,605 thousand.

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

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

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

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

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

As a result of further proceedings, in the judgement of 28 March 2014 the CCCP dismissed the appeal of PZU Życie and adjudged the return of proceeding's expenses by PZU Życie. On 10 July 2014 PZU Życie appealed against the judgement of the CCCP of 28 March 2014, appealing against the judgement in its entirety. The court sent a copy of the appeal to the defendant and other participants who submitted a response to the appeal. Subsequently, the files were sent to the Appellate Court in Warsaw which will set the date for the appeal hearing.

Regardless of the initiated appellation procedures, PZU recognized a provision for the above fine, whose amount both as at 31 December 2014 and 31 December 2013 was PLN 50,384 thousand.

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

56.4.1. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw

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

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

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

As at 31 December 2014 PZU Życie established a provision for the case in question in the amount of PLN 22,668 thousand (as at 31 December 2013: PLN 50,944 thousand).

56.4.2. Proceedings for a declaration of enforceability of the Judgement of the Arbitration Court 108/10

On 23 January 2013, CSC motioned the District Court in Warsaw for a statement of enforcement of the Judgement of Arbitration Court 108/10 and providing it with a writ of execution. On 15 March 2013 the court issued an order of enforcement with respect to the Judgement.

On 18 March 2013, PZU filed a complaint against the aforesaid decision of 15 March 2013 with the District Court in Warsaw, demanding suspension of its enforcement. In response, on 22 March 2013, the Court decided to suspend enforcement of the aforementioned decision until resolution of the complaint lodged by PZU Życie. On 4 April 2013, CSC submitted to the Court its response to the complaint filed by PZU Życie demanding its dismissal in its entirety. The Appellate Court decided to adjourn the hearing of the complaint until the date of the District Court's examination of the complaint filed by PZU Życie to reverse the Judgement of Arbitration Court 108/10.

On 28 November 2014, CSC requested the proceedings for a declaration of enforceability of the Judgement 108/10 in connection with a final dismissal of complaint filed by PZU Życie to reverse the Judgement of the Arbitration Court 108/1 described in 57.4.3). The District Court resumed the proceedings and referred the files to the Appellate Court for it to adjudicate the claim of PZU Życie.

56.4.3. Proceedings concerning the complaint filed by PZU to reverse the Judgement of the Arbitration Court 108/10

On 1 February 2013, PZU submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Judgement of the Arbitration Court 108/10 and suspension of its execution.

After the proceedings, on 12 November 2013, the District Court rejected the complaint to reverse the Judgement of the Arbitration Court 108/10. PZU appealed to the Appellate Court in Warsaw and on 17 February 2014 a response to the appeal was received. On 21 November 2014, the Appellate Court in its judgement dismissed the appeal of PZU Życie.

56.4.4. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw concerning a claim for payment

On 29 March 2013, CSC filed a suit against PZU with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, for the payment of PLN 6,690 thousand in statutory interest concerning the amounts awarded in the proceedings described in 57.4.1 accrued in the period from the suit date to the payment date.

After the proceedings, on 24 April 2014, the Court of Arbitration in its judgement ("Judgement of the Arbitration Court 67/13") adjudicating the payment of PLN 2,397 thousand for CSC by PZU Życie together with interest accrued from the

judgement date to the payment date, the amount of PLN 40 thousand net as a refund of the arbitration fee, the amount of PLN 1 thousand as a refund of the registration fee and PLN 18 thousand as a refund of the cost of legal representation. In other aspects, the Arbitration Court dismissed the claim of CSC.

56.4.5. Proceedings concerning the Judgement of the Arbitration Court 67/13

Following the exchange of the pleadings, in a decision of 22 August 2014, the Court issued a statement of enforceability of the Judgement of the Arbitration Court 67/13 in part of the claim of CSC and issued an order of enforcement with respect to the Judgement. On 10 September 2014 PZU Życie challenged this decision with a complaint. After CSC obtained the order of enforcement, on 15 September 2014, PZU Życie paid to CSC the amounts covered by the enforcement order, doing it under reserve.

On 4 June 2014, PZU submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Judgement of the Arbitration Court 67/13 and suspension of its execution. On 25 July 2014, CSC issued a response to the complaint to reverse the Judgement of the Arbitration Court 67/13.

On 12 August 2014, CSC submitted a complaint to reverse the Judgement of the Arbitration Court 67/13 to the District Court in Warsaw, mentioning to reverse the Judgement in, among others, the part dismissing CSC's claim in the amount of PLN 6,689 thousand. On 26 September 2014, PZU Życie filed its response to the complaint.

To the date of signing the consolidated yearly report, the complaints of PZU Życie and CSC to reverse the Judgement of the Arbitration Court 67/13 had not been considered.

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

PZU concluded contracts of mandate regarding periodic insurance guarantees (contractual guarantees) with PBG SA ("PBG") and Hydrobudowa Polska SA ("Hydrobudowa"). The registered offices of both companies are located in Wysogotowo near Poznań. PZU issued insurance guarantees on the basis of their contracts. Should PZU perform on these guarantees, its clients were obliged to refund amounts paid to PZU.

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

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

- PBG granted sureties regarding PLN 33,747 thousand arising from guarantees issued for Hydrobudowa;
- Hydrobudowa granted sureties regarding PLN 67,249 thousand arising from guarantees issued for PBG.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG of PLN 103,014 thousand have been entered into the list of liabilities. As at 31 December 2014, the sureties amount to PLN 102,164 thousand and their reduction is due to the expiration of a part of guarantees to which no claims were reported.

56.6 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999 PZU granted a mortgage to Metro-Projekt Sp. z o. o. ("Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

Metro-Projekt did not repay its loan, and in November 2002 it was declared bankrupt.

The proceedings resulting from the Receiver of Universal SA filing for a separation of the property located at Al. Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt began in 2004.

As a result of a settlement concluded in 2013, in exchange for resigning from claims for the insolvency estate of Universal, the insolvency estate of Metro-Projekt was to be charged with an additional amount of PLN 5,722 thousand to be transferred to the former.

In 2013 and 2014, the Receiver of Metro-Projekt announced the sale of the enterprise of the bankrupt company under a single-source contract, with a provision that it should have the form of a tender auction. The starting price for the enterprise was PLN 110 million, PLN 99 million, PLN 93 million, PLN 90 million and PLN 90 million, respectively. As no tenders were submitted, the procedure was not carried out.

Another announcement of the Receiver concerning the sale of the enterprise was published on 25 August 2014. The starting price for was set at PLN 80 million and the opening of bids was originally planned for 24 September 2014, later postponed to 10 October 2014 and further to 17 October 2014. The only bid in the amount of PLN 80 million was opened on 21 October 2014.

The Receiver sold the enterprise for PLN 80 million on 18 December 2014. In the opinion of the Receiver, the claim of PZU in the amount disclosed on the list of liabilities should be fully satisfied.

As at 31 December 2014 the carrying amount of the receivables from Metro-Projekt was PLN 109,478 thousand (PLN 83,203 thousand as at 31 December 2013). The change resulted from the release due to the impairment loss presented in Note 14.

57. Related party transactions

57.1 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group entities included in consolidation, including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2014 and 2013 the companies in PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards.

57.1.1. Remunerations in parent entity

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below:

Remunerations and other short-term employee benefits paid by PZU	1 January - 31 December 2014		1 January - 31 December 2013	
		including bonuses and special prizes:		including bonuses and special prizes:
Management Board, including:	8,226	2,812	9,503	3,024
Andrzej Klesyk	2,714	914	2,780	980
Przemysław Dąbrowski	1,054	313	1,135	336
Dariusz Krzewina	1,314	534	642	-
Barbara Smalska ¹⁾	1,088	399	593	-
Tomasz Tarkowski	891	228	1,102	336
Ryszard Trepczyński	1,165	424	1,535	736
Bogusław Skuza ²⁾	-	-	1,716	636
High level management (Directors of PZU Group), including:	3,717	1,193	3,263	1,122
Rafał Grodzicki	936	312	874	250
Przemysław Henschke	936	312	804	180
Dariusz Krzewina ³⁾	-	-	291	180
Sławomir Niemierka	860	199	863	200
Barbara Smalska ³⁾	-	-	431 ⁴⁾	312 ⁵⁾
Tobiasz Bury	985	370 ⁶⁾	-	-

Supervisory Board, including:	1,221	-	1,224	-
Aleksandra Magaczewska	97	-	-	-
Waldemar Maj	90	-	192	-
Zbigniew Cwiąkański	168	-	168	-
Tomasz Zganiacz	144	-	144	-
Dariusz Daniluk	57	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Dariusz Kacprzyk	64	-	-	-
Jakub Karnowski	64	-	-	-
Włodzimierz Kiciński	57	-	120	-
Alojzy Nowak	120	-	120	-
Maciej Piotrowski	120	-	120	-

Remunerations and other short-terms employee benefits paid by other PZU Group entities	1 January - 31 December 2014		1 January - 31 December 2013	
		including bonuses:		including bonuses:
Management Board, including:	2,942	996	3,826	1,224
Andrzej Klesyk	-	-	320	-
Przemysław Dąbrowski	599	200	654	255
Dariusz Krzewina	553	133	1,121	561
Barbara Smalska ¹⁾	596	225	327	-
Tomasz Tarkowski	536	179	510	153
Ryszard Trepczyński	658	259	654	255
Bogusław Skuza ²⁾	-	-	240	-
High level management (Directors of PZU Group), including:	1,844	478	2,235	1,071
Rafał Grodzicki	455	119	742	357
Przemysław Hensчке	455	119	742	357
Sławomir Niemierka	427	70	751	357
Tobiasz Bury	507	170 ⁶⁾	-	-

Total estimated valued of benefits in kind allocated by PZU and its subsidiaries	1 January – 31 December 2014	1 January – 31 December 2013
Management Board, including:	1307	1,343
Andrzej Klesyk	282	251
Przemysław Dąbrowski	186	167
Dariusz Krzewina ³⁾	217	214
Barbara Smalska ^{1) 3)}	205	151
Tomasz Tarkowski	191	181
Ryszard Trepczyński	226	166
Bogusław Skuza ²⁾	-	213
High level management (Directors of PZU Group), including:	908	401
Rafał Grodzicki	170	183
Przemysław Hensчке	203	55
Sławomir Niemierka	358	163
Tobiasz Bury	177	-

¹⁾ On 6 October 2014, Barbara Smalska resigned from the position of Member of the Management Board of PZU as at 31 December 2014.

²⁾ On 27 December 2013, Bogusław Skuza resigned from the position of Member of the Management Board of PZU as at 31 December 2013.

³⁾ On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the position of Members of the Management Board effective from 15 March 2013. (Additionally Dariusz Krzewina and Barbara Smalska were Directors of PZU Group respectively till 14 March 2013 and from 5 January 2013 respectively till 14 March 2013)

⁴⁾ The aforementioned amount includes a bonus for 2012 as well as remuneration for the performance of other functions at PZU and PZU Życie until the date of appointment as the Group's Director.

⁵⁾ Amount representing the bonus for 2012 granted during the performance of other functions in PZU and PZU Życie.

⁶⁾ Amount representing the bonus for 2013 granted during the performance of other functions in PZU and PZU Życie.

57.1.2. Remuneration in other PZU Group entities

Remuneration paid to members of the Management Boards and Supervisory Boards of other companies in PZU Group:

Type of services	1 January – 31 December 2014	1 January – 31 December 2013
Members of the Management Boards	18,786	11,015
Members of the Supervisory Boards	844	898

57.2 Other related party transactions

Balances and turnovers of transactions between PZU Group and related parties	1 January – 31 December 2014 and as at 31 December 2014		1 January – 31 December 2013 and as at 31 December 2013	
	Key management personnel of the major entities ¹	Other related parties ²⁾	Key management personnel of the major entities ¹	Other related parties ²⁾
Gross written premium				
in non-life insurance	-	860	-	-
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	-	-	15
Costs	-	18	-	-
Including impairment losses on receivables recognized in current period	-	-	-	-
Receivables		40		
gross value	-	40	-	8,308
impairment losses	-	-	-	8,306
net value	-	40	-	2
Liabilities	-	11	-	-
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

¹⁾ High level management, data as per statements.

²⁾ Non-consolidated companies in liquidation as well as associates and joint ventures measured with the equity method.

57.3 Presentation of transactions with entities related to the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing the Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury.

Non-life insurance contracts, life insurance contracts and investment contracts constituted the majority of transactions with subsidiaries, joint-ventures and associates of the State Treasury. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Insurance receivables from and insurance liabilities to related parties are short-term.

PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to being under control, joint control or significant influence of the same government, as referred to in Par. 25 of IAS 24. However, as such information is useful, PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, joint-ventures and associates of the State Treasury understood only as commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.

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

Entities controlled by, joint-ventures of and entities associated with the State Treasury	1 January – 31 December 2014	1 January – 31 December 2013
Gross written premium - non-life insurance	69,347	102,371
Gross written premium - life insurance	30,749	27,514
Total	100,096	129,885

57.4 Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury

The tables below comprise written premiums and investment contracts in bancassurance transactions with banks controlled and associated with the State Treasury.

Written premium and volumes of investment contracts	1 January – 31 December 2014	1 January – 31 December 2013
Bank Powszechna Kasa Oszczędności BP SA	44.815	44.994
PZU gross written premium	14,066	17,480
PZU Życie gross written premium	30,749	27,514
Bank Ochrony Środowiska SA	1	-
PZU gross written premium	1	-
Bank Gospodarstwa Krajowego SA	126	309
PZU gross written premium	126	309

57.5 Transactions with largest counterparties whose shares are held by the State Treasury

Gross written premiums¹⁾ from 10 largest counterparties of PZU Group who are subsidiaries of the State Treasury

Counterparty	1 January - 31 December 2014	Counterparty	1 January - 31 December 2013
Counterparty 1	44,815	Counterparty 1	44,994
Counterparty 2	27,282	Counterparty 6	30,378
Counterparty 3	5,017	Counterparty 8	16,396
Counterparty 4	3,847	Counterparty 11	5,619
Counterparty 5	3,189	Counterparty 4	5,366
Counterparty 6	2,530	Counterparty 5	5,263
Counterparty 7	1,925	Counterparty 3	4,289
Counterparty 8	1,521	Counterparty 2	4,160
Counterparty 9	1,154	Counterparty 7	1,763
Counterparty 10	1,106	Counterparty 9	1,476

¹⁾ The item includes gross written premium in non-life insurance, life insurance and volumes of investment contracts.

58. Employment

The table below presents the average number of employees in the PZU Group entities.

Type of services	1 January 31 December 2014	1 January 31 December 2013
Management Boards (number of people at the end of the financial year)	77	42
Management	1,216	957
Advisors	2	11
Other employees	15,629	13,082
Total	16,924	14,092

The 2014 increase in employment in the PZU Group is a result of the expansion of the PZU Group, by new subsidiaries: (Lietuvos Draudimas AB – 1,092 full-time employees; Link4 – 579 full time employees; AAS Balta – 544 full-time employees; other companies – 572 full-time employees)

59. Other information

59.1 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts due to entities authorised to audit financial statements of PZU paid and payable for the reporting period period, including VAT, and determined on the accrual basis.

Type of services	1 January – 31 December 2014	1 January – 31 December 2013
Audit of the financial statements	714	633
Other assurance services	248	887
Tax advisory services	-	416
Other services	27	34
Total	989	1,970

¹⁾ KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. is authorized to audit the 2014 financial statements.

²⁾ Deloitte Polska Spółka z ograniczoną odpowiedzialnością sp. k. was authorized to audit the 2013 financial statements.

An agreement with KPMG Audyt sp. z o.o. sp. k. concerning the reviews and audits of the separate financial statements of PZU and the consolidated financial statements of PZU Group for the years 2014-2016, with an option to extend the agreement for the years 2017-2018, was concluded on 26 June 2014.

59.2 Employment restructuring process

On 8 September 2014 the Management Boards for PZU and PZU Życie decided to continue the process of employment restructuring and announced their intention to carry out group redundancies, in accordance to the Act from 13 March 2013 on special principles of employment termination for reasons not related to employees (Journal of Laws No. 90 of 2013, item 844, as amended – "Act on special principles of employment termination").

On 11 September 2014, PZU, PZU Życie and the trade unions operating at these companies signed an agreement setting out the terms and conditions of employment restructuring. The final form of the document was based on the experience and solutions developed during the corresponding negotiations in previous years.

Employment restructuring was conducted during the planned period (October – November 2014) and finally encompassed 643 people within PZU and PZU Życie, while the employment downsizing applied to 171 employees.

The people who were dismissed or who did not accept the changes in the terms and conditions of employment (just as during all stages of employment restructuring, namely in 2010–2013) were offered more favourable conditions of leaving than those provided by law. The amount of additional redundancy pay depended on the length of service with PZU Group and the salary of each employee.

On 18 December 2014, the Management Board of PZU adopted a decision to commence restructuring activities related to the implementation of the new IT systems and automation of operating processes. The expected commencement of the restructuring process is planned for 2015.

As at 31 December 2013, the provision for restructuring expenses amounted to PLN 9,354 thousand.

59.3 Changes in the operation of open-end pension funds

Pursuant to the Act of 6 December 2013 amending certain other acts due to determination of the terms of payment of pension benefits out of the funds accumulated in open-end pension funds (Journal of Laws of 2013, item 1717), changes were introduced to the operation of pension funds. The new legislation has an effect on the operation of OFE PZU and PTE PZU in 2014 and in the following years.

Under the aforesaid amendments, OFE PZU has been obliged to transfer assets representing 51.5% of the accounting units recorded in the account of each OFE PZU member to the Social Insurance Institution. On 3 February 2014, OFE PZU transferred the assets corresponding to the redemption value to the Social Insurance Institution. Asset transfer to

the Social Insurance Institution will have a significant effect on the revenue earned by PTE PZU on asset management, and consequently on the performance of the "Pension Insurance" segment.

The total effect of the transfer of OFE PZU assets to the Social Insurance Institution as well as other changes to the pension system on the revenue of PTE PZU in 2014 and in the following periods may not be estimated reliably, in particular due to uncertainty as to the final number of members that will continue to transfer premiums to the open-ended pension fund, the amount of such premiums and the period during which they will be transferred to OFE PZU, taking into account the method of transferring the pension entitlements of the insured from OFE PZU to the Social Insurance Institution prior to the actual payment of benefits. The Management Board of PZU is of the opinion that the aforementioned changes will not have an effect on the ability of PTE PZU to continue as a going concern in the foreseeable future.

59.4 Loan and capital injection granted to PZU Lietuva

On 25 September 2014, a subordinated loan agreement was concluded between PZU and PZU Lietuva covering the amount of EUR 46,000 thousand. The purpose of the loan was to provide funds for the acquisition of the Codan Branch and to meet the requirements specified by the Lithuanian supervisory authority in the scope of the minimum solvency margin (prior to and following the acquisition of Codan's assets, the solvency margin amounted to at least 120%). The loan was granted for a minimum of five years and the agreement did not specify the maximum duration of the loan. According to the Lithuanian law, a subordinated loan may be granted for a minimum of five years. The interest rate on the loan was determined on an arm's length basis (3-month EURIBOR rate increased by a margin of 340 bps.)

Under the agreement, a portion of the loan and the accrued interest (including not less than EUR 37,000 thousand) was converted in order to acquire the newly issued shares of PZU Lietuva. On 24 October 2014, the Extraordinary Shareholders' Meeting of PZU Lietuva resolved to increase the share capital of PZU Lietuva by LTL 86,000 thousand through the issuance of 860,000 ordinary shares with the nominal value of LTL 100 each and the share issuance price of LTL 150 per share. The total value of the newly issued shares amounted to LTL 129,000 (approximately EUR 37,361 thousand).

On the same day, an agreement was signed between PZU Lietuva and PZU concerning the acquisition of newly issued shares.

The loan, as a transaction between companies within the Group, is eliminated in the process of drawing up consolidated financial statements and does not affect its structure.

59.5 Loan granted to Link4

On 12 September 2014, a subordinated loan agreement was concluded between PZU and Link4 covering the amount of PLN 30,000 thousand. The loan should be paid on 15 September 2019 or the following working day, whereas an early repayment is possible only in case of liquidation of Link4 or with the consent of the Polish Financial Supervision Authority.

The interest rate on the loan was determined on an arm's length basis (WIBOR 6M rate increased by a margin of 350 bps.)

The loan, as a transaction between companies within PZU Group, is eliminated in the process of drawing up consolidated financial statements and does not affect its structure.

59.6 Inspection of the office of the Polish Financial Supervision Authority in PZU Życie

During the period between 12 August and 3 October 2014 the Polish Financial Supervision Authority conducted an inspection at PZU Życie. The inspection covered PZU Życie's operations and its financial status in respect of:

- organisation and management;
- bookkeeping;
- investment policy;
- technical provisions;
- fulfilment of benefits.

Until the date of signing the consolidated financial statements PZU Życie has not received the inspection report.

59.7 Situation in Ukraine

During 2014 Ukraine's political and economic situation has deteriorated significantly. Social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit, a depletion of the National Bank of Ukraine's foreign currency reserves, a further downgrading of the Ukrainian sovereign debt credit ratings and significant depreciation of Ukrainian hryvnia.

In connection with this volatile situation the management boards of PZU Ukraine and PZU Ukraine Life Insurance (hereinafter collectively referred to as the "Ukrainian Companies") have made the following decisions in order to mitigate the risk:

- in the scope of insurance activity, apart from standard exceptions (war, terrorism, etc.), insurance coverage does not apply to third party operations performed in violation of the law. In addition, it has been decided to temporarily suspend conclusion and renewal of non-life insurance contracts with natural and legal persons, including property that is subject to a lien or mortgage, if the contract is executed in the territory of Donetsk and Luhansk regions. The same applies to forwarding agent and carrier liability insurance, as well as cargo insurance, if the freight lane passes through the territory of the above mentioned regions;
- the regional office of PZU Ukraine in Simferopol and its customer service centre in Sevastopol are closed. In addition, four sales offices and two agencies were closed in the Donetsk and Luhansk regions;
- actions have been taken to transfer part of the assets, such as cash at current accounts and bank deposits owned by the Ukrainian Companies, to selected banks operating in Ukraine. The main criterion applied when making the above selection is whether a given institution has a trustworthy foreign majority shareholder.

Both in 2014 and early 2015, the Ukrainian Companies realised their sales plans approved by the Supervisory Board.

The Management Board of PZU, in cooperation with the management boards of the Ukrainian Companies, constantly monitors the situation in Ukraine. As at the date of this consolidated financial statements, the Management Board of PZU assumes that the Ukrainian Companies will continue their business activity in accordance with the approved objectives. Nevertheless, a continuation of the current unstable business environment could negatively affect in the future the Ukrainian Companies' results and financial position in a manner not currently determinable. These consolidated financial statements reflects the current assessment of the Management Board of PZU in this respect.

59.8 Revenue from the exchange of goods and services

Neither in 2014, nor in 2013 PZU Group did not obtain any revenues from the exchange of goods and services.

59.9 Events after the financial year

59.9.1. The sale of PZU Lietuva shares

On 2 February 2015, a share sales agreement for the sale of PZU Lietuva shares was signed, under which Gjensidige Forsikring ASA with the registered office in Oslo (Norway) acquired 1,761,941 ordinary registered shares with the nominal value of LTL 100 (EUR 28,96) each, representing a total of 99.879% of the share capital of PZU Lietuva.

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

- the lack of objection of the Bank of Lithuania regarding the purchase of shares in PZU Lietuva by the purchaser;
- consent of the Latvian and Estonia antitrust authorities or a written confirmation that such consent is not required;
- consent of the Lithuanian Competition Council;
- completion of the process of separating assets and liabilities of PZU Lietuva related to the operations carried out by the branches of PZU Lietuva in Latvia and Estonia to PZU Group;
- obtaining the consent of the Bank of Lithuania on the early repayment by PZU Lietuva of a subordinated loan granted to PZU Lietuva by PZU;
- consent of the Norwegian Financial Supervision Authority for the purchase of the shares in PZU Lietuva by the purchaser;
- waiver of the preemptive right by the minority shareholder of PZU Lietuva (holding 0.121% of the share capital) in relation to the shares of PZU Lietuva in favour of PZU;
- consent of the Lithuanian government commission for the purchase of the shares in PZU Lietuva by the purchaser or a written confirmation that such consent is not required.

The above mentioned conditions should be met on 30 November 2015.

The price of the shares of PZU Lietuva amounts to EUR 54,000 thousand and the estimated amount of compensation constituting the difference between the estimated value of net assets and the notional value of net assets, as well as the as well as 4 payments made every 6 months, each in the amount of 1.5% of the amount of excess capital calculated as the difference between the actual equity of PZU Lietuva determined in accordance with the requirements of the Bank of Lithuania and the required PZU Lietuva capital calculated in accordance with the provisions of law and regulations binding PZU Lietuva.

59.9.2. Purchasing of Aquaform SA shares

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

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

The total share of Armatura Kraków SA and Armatoora SA in the share capital of Aquaform SA amounts to 84.21%, which translates into 84.21% votes in the Shareholders' Meeting.

59.9.3. Administrative proceedings conducted by the Office of Competition and Consumer Protection

On 30 January 2015 PZU Życie received notice dated 26 January 2015 informing that administrative proceeding has been started, concerning practices that infringe the collective interest of consumers.

59.9.4. Settlement of the acquisition of shares of Link4

On 11 March 2014, the final settlement of acquisition of Link4 shares was prepared, which was described in the Note 2.4.5.2. As a result of difference between the final value of net assets and the notional value, RSA paid to PZU abovementioned difference amounted to EUR 2,070 thousand. The final purchase price amounted EUR 91,816 thousand.

Signatures of members of the Management Board of PZU

Name and surname

Position

Andrzej Klesyk	President of the Management Board	 (signature)

Przemysław Dąbrowski	Board Member	 (signature)

Dariusz Krzewina	Board Member	 (signature)

Tomasz Tarkowski	Board Member	 (signature)

Ryszard Trepczyński	Board Member	 (signature)

Person responsible for preparation of the consolidated financial statements:

Katarzyna Łubkowska	Director of the Accounting Department	 (signature)

Warsaw, 16 March 2015

**THE CAPITAL GROUP OF
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA
WARSAW, AL. JANA PAWŁA II 24**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2013 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

TABLE OF CONTENTS

AUDITOR'S OPINION.....	3
REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2013 FINANCIAL YEAR.....	5
I. GENERAL INFORMATION.....	5
1. Details of the audited Parent Company.....	5
2. Information about the consolidated financial statements for the prior financial year	8
3. Details of the authorized entity and the key certified auditor acting on its behalf	8
4. Availability of data and management's representations	9
II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP	10
III. DETAILED INFORMATION.....	12
1. Information about the audited consolidated financial statements.....	12
2. Consolidation documentation.....	12
3. Completeness and correctness of drawing up notes and explanations and the management report of the Capital Group.....	13
IV. CLOSING COMMENTS.....	14

CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2013 FINANCIAL YEAR

1. Consolidated Statement of Financial Position
2. Consolidated Income Statement
3. Consolidated Statement of Comprehensive Income
4. Statement of Changes in Consolidated Equity
5. Consolidated Statement of Cash Flows
6. Additional information and explanatory notes

MANAGEMENT REPORT OF THE CAPITAL GROUP OF POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2013 FINANCIAL YEAR

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the attached consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ("Capital Group") with Powszechny Zakład Ubezpieczeń Spółka Akcyjna, with its registered office in Warsaw at , Al. Jana Pawła II 24, as the Parent Company, including consolidated statement of financial position prepared as of 31 December 2013, consolidated income statement and consolidated statement of comprehensive income, statement of changes in consolidated equity, consolidated statement of cash flows for the financial year from 1 January 2013 to 31 December 2013 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and the management's report of the Capital Group in line with the law is the responsibility of the Management Board of the Parent Company. The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act". Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion

In our opinion, the audited consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2013 as well as its profit or loss in the financial year from 1 January 2013 to 31 December 2013,

- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2013 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014, item 133) and consistent with underlying information disclosed in the audited consolidated financial statements.

.....
 Jacek Marczak
 Key certified auditor
 conducting the audit
 No. 9750

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....
 Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 11 March 2014

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL
STATEMENTS OF THE CAPITAL GROUP OF POWSZECHNY ZAKŁAD
UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2013 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent Company

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw at Al. Jana Pawła II 24, was established via transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company, pursuant to Article 97 of the Act of 28 July 1990 on insurance activity (consolidated text, Journal of Law from 1996, No. 11, item 62, as amended).

The terms and procedures of transformation and assignment of liabilities of Państwowy Zakład Ubezpieczeń are governed by the Ordinance of the Minister of Finance of 18 December 1991 (Journal of Law from 1991, No. 119, item 522). Formal and actual transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company took place on 23 December 1991 pursuant to a notarized deed Rep. A-III-21516/91. Currently, the Company is recorded in the register of entrepreneurs kept by the District Court for the capital city of Warsaw, XII Business-Registry Division in Warsaw under number KRS 0000009831.

The Company has the following tax identification number NIP: 526-025-10-49, assigned by the Second Tax Office Warszawa-Śródmieście on 4 June 1993.

The REGON number assigned by the Statistical Office on 5 July 1993 is: 010001345.

The Company operates based on the provisions of the Code of Commercial Companies.

According to the Statistical Classification of Economic Activities in the Polish Community the Company's core business involves other property and personal insurance (PKD 65.12) and according to European Community, the Company's core business involves property insurance (code 6603).

As of 31 December 2013, the Company's share capital amounted to PLN 86,352,300 thousand and was divided into 86,352,300 ordinary registered shares with a face value of PLN 1 each.

A series bearer shares and B series shares are publicly traded and listed on the Warsaw Stock Exchange. As of 31 December 2013 the Company's shareholders holding over 5% shares included:

– State Treasury – 35.1875% shares.

During the financial year there were no changes in the share capital of the Company.

In the period from the balance sheet date and until the date of this report there were no changes in the Company's share capital.

As of 31 December 2013, the Capital Group's equity amounted to PLN 13,127,787 thousand.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as of the date of the opinion:

– Andrzej Klesyk	– Chairman of the Board,
– Przemysław Dąbrowski	– Member of the Board,
– Dariusz Krzewina	– Member of the Board,
– Barbara Smalska	– Member of the Board,
– Tomasz Tarkowski	– Member of the Board,
– Ryszard Trepczyński	– Member of the Board.

Changes in the composition of the Management Board during the audited period and till the date of the opinion:

- On 12 March 2013 the Supervisory Board appointed Dariusz Krzewina a Member of the Management Board, effective from 15 March 2013.
- On 12 March 2013 the Supervisory Board appointed Barbara Smalska a Member of the Management Board, effective from 15 March 2013.
- On 27 December 2013 Bogusław Skuza resigned from the Management Board effective from 31 December 2013.

The above changes have been reported and registered at a relevant court register.

In the financial year the composition of Capital Group has changed – the composition of the Capital Group and its changes has been presented in note 2.2 and 2.3 of consolidated financial statements. Subsidiaries which are subject of full consolidation have been presented in note 2.2 and changes in scope of consolidation in note 3.4 to consolidated financial statements.

The consolidated financial statements as of 31 December 2013 included the following entities:

- a) Parent – Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the financial statements of the Parent Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period from 1 January to 31 December 2013. As a result of our audit, on 11 March 2014 we issued an unqualified opinion.

- b) Companies subject to full consolidation:

Name of the Company	Share in the capital (%)	Name of the entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date ¹
Powszechny Zakład Ubezpieczeń SA	n/a	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU Centrum Operacji SA („PZU CO”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	6 March 2014
Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	10 March 2014
PZU Asset Management SA („PZU AM”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	10 March 2014

¹ date of an audit opinion relates, unless otherwise indicated, to statutory audit of the financial statements prepared in accordance with the accounting policies specified in the Accounting Act and applicable to the entity relevant rules; restated financial statements of the entity prepared as consolidation package prepared in accordance with IAS/IFRS adopted by the PZU Capital Group was subject to consolidation.

Name of the Company	Share in the capital (%)	Name of the entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date ¹
PZU Pomoc SA	100.00%	Deloitte Polska Sp. z o.o. sp.k. – statutory audit has not been completed	31 December 2013	11 March 2014*
Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	10 March 2014
PrJSC IC PZU Ukraine („PZU Ukraine”)	100.00%	PJSC "Deloitte & Touche USC" – statutory audit has not been completed	31 December 2013	10 March 2014*
PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life”)	100.00%	PJSC "Deloitte & Touche USC" – statutory audit has not been completed	31 December 2013	10 March 2014*
UAB DK PZU Lietuva („PZU Lietuva”)	99.76%	UAB „Deloitte Lietuva” – statutory audit has not been completed	31 December 2013	10 March 2014*
UAB PZU Lietuva Gyvybes Draudimas	99.34%	UAB „Deloitte Lietuva” – statutory audit has not been completed	31 December 2013	10 March 2014*
PZU Finanse Sp. z o.o. ²	100.00%	Not subject to audit	31 December 2013	-
Tower Inwestycje Sp. z o.o. („Tower Inwestycje”)	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	10 March 2014
Ogrodowa-Inwestycje Sp. z o.o.	100.00%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	10 March 2014
Armatura Capital Group	92.75%	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
Ipsilon Sp. z o.o. ²	100.00%	Not subject to audit	31 December 2013	-
Ipsilon Bis SA ²	100.00%	Not subject to audit	31 December 2013	-
Omicron SA ²	100.00%	Not subject to audit	31 December 2013	-
LLC SOS Services Ukraine ²	100.00%	Not subject to audit	31 December 2013	-
PZU SFIO Universum (formerly PZU SFIO Dłużny)	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Akcji	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Dynamiczny	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Sektora Nieruchomości	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Sektora Nieruchomości 2	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Sektora Nieruchomości 3	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Aktywów Niepublicznych BIS 1	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Aktywów Niepublicznych BIS 2	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU Dłużny Rynków Wschodzących	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Aktywów Niepublicznych RE Income	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIO Gotówkowy	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014

² Statutory financial statements of companies were not subject to audit due to the lack of legal obligation to conduct such audits in accordance with the Accounting Act; verification of the consolidation packages made during the audit of the consolidation documentation.

Name of the Company	Share in the capital (%)	Name of the entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date ¹
Subsidiary commercial companies having the character of special purpose entities that invest in various real estates which are in the portfolios of PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3, PZU FIZ Aktywów Niepublicznych RE Income; number for each of the above mentioned funds amounted to 37, 8, 9 and 6 companies, respectively	100.00%	Deloitte Polska Sp. z o.o. sp.k. – statutory audits have not been completed at the date of the opinion on the consolidated financial statements	31 December 2013	11 March 2014*

* the date of confirmation of the consolidation package prepared in accordance with IAS/IFRS as part of the audit of the consolidation documentation and audit procedures carried out in relation to the balance sheets of the units, taking into account the significance of these entities to the consolidated result of the PZU Capital Group.

The Parent Company preparing the consolidated financial statements did not simplify or alter consolidation principles in relation to the consolidated entities.

2. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2012 resulted in a net profit of PLN 3,253,826 thousand. The consolidated financial statements of the Capital Group for 2012 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 12 March 2013 the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2012 financial year was held on 23 May 2013.

In accordance with applicable laws, the consolidated financial statements for the 2012 financial year were submitted to the National Court Register (KRS) on 29 May 2013.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 16 July 2012 concluded between Powszechny Zakład Ubezpieczeń Spółka Akcyjna and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Jacek Marczak key certified auditor (No.9750) in the registered office of the Parent Company as well as outside the Parent Company's premises from 31 January 2014 until the date of this opinion.

The entity authorized to audit the consolidated financial statements was appointed by the resolution of the Supervisory Board of 8 May 2012 based on authorization included in Article 25, clause 2, point 10 of the Parent Company By-laws.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and Jacek Marczak, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public

oversight (Journal of Laws of 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent Company of 11 March 2014.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

<u>Selected items from the statement of financial position</u> (in PLN '000)	<u>31.12.2013</u>	<u>31.12.2012</u>
Intangible assets	308,726	183,238
Property, plant and equipment	927,281	992,317
Investment property	1,474,770	564,404
Financial assets	54,688,714	50,423,076
Receivables	2,664,986	1,835,793
Reinsurers' share in technical provisions	526,605	749,334
Deferred acquisition costs	609,819	574,489
Cash and cash equivalents	548,266	136,586
Total assets	62,362,421	55,909,560
Equity	13,127,787	14,369,369
Technical provisions	37,324,416	35,400,778
Investment contracts	2,121,037	2,299,147
Other provisions	192,906	267,456
Deferred tax liability	255,399	357,557
Other liabilities	8,926,375	3,056,467
Total equity and liabilities	62,362,421	55,909,560
<u>Selected items from the consolidated income statement</u> (in PLN '000)	<u>01.01.2013- 31.12.2013</u>	<u>01.01.2012 - 31.12.2012</u>
Net earned premium	16,248,769	16,005,240
Revenue from commissions and fees	319,962	237,102
Net investment income	1,844,932	2,047,054
Net profit/loss on realization and impairment loss on investments	25,045	521,268
Net change in the fair value of assets and liabilities plus equity measured at fair value	618,091	1,136,407
Other operating revenue	491,109	588,028
Net insurance claims and benefits	(11,161,224)	(12,218,731)
Acquisition costs	(2,015,938)	(2,000,351)
Administrative expenses	(1,406,480)	(1,440,301)
Benefits and change in measurement of investment contracts	(77,715)	(176,780)
Income tax	(825,579)	(784,882)
Net profit	3,295,113	3,253,826
<u>Main items from the consolidated statement of other comprehensive income (in PLN '000)</u>	<u>01.01.2013- 31.12.2013</u>	<u>01.01.2012 - 31.12.2012</u>
Net profit	3,295,113	3,253,826
Other comprehensive income	(104,510)	88,660
Net comprehensive income total	3,190,603	3,342,486

<u>Profitability ratios</u>	<u>2013</u>	<u>2012</u>
– profitability ratio on the basis of gross premium written (net profit / gross written premium)	20.0%	20.0%
– profitability ratio on the basis of net premium earned (net profit / net written premium)	20.3%	20.3%
<u>Claims ratios</u>		
– gross claims ratio (claims and change in technical provisions/gross earned premium)	67.9%	76.2%
– net claims ratio (claims and net change in technical provisions/net earned premium)	68.7%	76.3%
<u>Total operating costs ratio</u>		
– administrative expenses ratio (administrative expenses/gross written premium)	8.5%	8.9%
– acquisition costs ratio (acquisition costs/gross written premium)	12.2%	12.3%
<u>Return on investment and equity ratios:</u>		
– investment level ratio (financial assets and investment property / equity and technical provisions less reinsurers' share as at the end of the reporting period)	112.5%	104.2%
– return on equity (net profit/average equity) ³	24.1%	24.0%
<u>Solvency and funds security ratios</u>		
– provision allocation ratio (financial assets and investment property / technical provisions less reinsurers' share)	152.6%	147.1%

The analysis of the above figures and ratios identified the following trends in 2013:

- no change in profitability ratio on the basis of gross written premium in 2013 in comparison to 2012;
- no change in profitability ratio on the basis of net earned premium in 2013 in comparison to 2012;
- a decrease in gross claims ratio from 76.2% in 2012 to 67.9% in 2013;
- a decrease in net claims ratio from 76.3% in 2012 to 68.7% in 2013;
- an increase in investment level ratio from 104.2% at the end of 2012 to 112.5% at the end of 2013;
- an increase in return on equity from 24.0% in 2012 to 24.1% in 2013;
- an increase in provision allocation ratio from 147.1% at the end of 2012 to 152.6% at the end of 2013.

³ The average calculated as an arithmetic average of the equity balance as at the beginning and the end of the reporting period.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2013 and include:

- consolidated statement of financial position prepared as of 31 December 2013, with total assets and liabilities plus equity of PLN 62,362,421 thousand,
- consolidated income statement for the period from 1 January 2013 to 31 December 2013, with a net profit of PLN 3,295,113 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, with a total comprehensive income of PLN 3,190,603 thousand,
- statement of changes in consolidated equity for the period from 1 January 2013 to 31 December 2013, disclosing a decrease in equity of PLN 1.141.482 thousand,
- consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing a cash inflow of PLN 411,680 thousand,
- notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and equity plus liabilities as well as items affecting the financial profit or loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2013 to 31 December 2013 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company,
- verification of the consolidation documentation,
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation,
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

- 1) financial statements of entities included in the consolidated financial statements,
- 2) consolidation packages of controlled entities included in the consolidated financial statements, adjusted to International Financial Reporting Standards (“IFRS”) and the Group accounting principles (policy) applied during consolidation,
- 3) consolidation packages of controlled entities translated into the Polish currency,
- 4) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements,
- 5) calculation of the goodwill impairment,
- 6) calculation of non-controlling interest,
- 7) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2013 financial year have been prepared in accordance with the International Financial Reporting Standards endorsed by European Union.

Entities in the Capital Group

The scope and method of consolidation as well as the relationship between entities have been determined based on the criteria specified in the International Financial Reporting Standards.

Financial period

The consolidated financial statements have been prepared as of the same balance sheet date and for the same financial year as the financial statements of the Parent Company – Powszechny Zakład Ubezpieczeń Spółka Akcyjna. Subsidiaries and associated companies measured using equity method included in consolidation prepared their financial statements as of the same balance sheet date as the Parent Company. The financial year of all subsidiaries and associated companies included in consolidation ended on 31 December 2013.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

Once the values had been summed up, consolidation adjustments and eliminations were applied to:

- the cost of shares held by the Parent Company in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent Company in these companies,
- mutual receivables and liabilities of entities included in consolidation,
- material revenue and expenses related to transactions between entities included in consolidation.

3. Completeness and correctness of drawing up notes and explanations and the management report of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, profit or loss and principles of preparation of the consolidated financial statements.

The Parent Company prepared the additional information and explanations in the form of tabular notes to individual items in the consolidated statement of financial position, income statement and statement of comprehensive income as well as narrative descriptions in line with IFRS.

Explanatory notes describing: property, plant and equipment, intangible assets and provisions, including technical provisions correctly present increases and decreases as well as their basis during the financial year. Limited disposability was indicated for individual assets presented in the consolidated statement of financial position, as some of them constituted collateral of creditors.

Individual assets and equity and liabilities as well as revenue and expenses were correctly presented by the Parent Company in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows with additional notes,

information and explanations constituting an integral part thereof, contain all the items, whose disclosure in the financial statements is required by the provisions of IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a management report of the Capital Group in the 2013 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journals of Law of 2014, item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

.....
Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

.....
Dariusz Szkaradek – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. - which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 11 March 2014

**CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2013
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL
REPORTING STANDARDS
WITH AUDITOR'S OPINION**



*The attached consolidated financial statements together with notes
are a translation from the original Polish version. In case of any discrepancies between
the Polish and English version, the Polish version shall prevail.*

TABLE OF CONTENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED INCOME STATEMENT	6
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	7
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY	8
CONSOLIDATED STATEMENT OF CASH FLOWS	10
ADDITIONAL INFORMATION AND EXPLANATORY NOTES	12
1. Introduction	12
2. Structure of the Capital Group	13
3. Key accounting principles (policy)	18
4. Key estimates and judgments	43
5. Segment reporting	49
6. Risk management	57
7. Fair value	81
8. Capital management	87
9. Intangible assets	89
10. Goodwill	91
11. Property, plant and equipment	93
12. Investment property	95
13. Entities measured using the equity method	96
14. Financial assets	97
15. Receivables, including under insurance contracts	113
16. Reinsurers' share in technical provisions	115
17. Impairment of financial assets and receivables	117
18. Estimated recoveries and recourses	121
19. Deferred tax assets	122
20. Current income tax receivables	124
21. Deferred acquisition costs	124
22. Other assets	124
23. Cash and cash equivalents	125
24. Assets held for sale	125
25. Issued share capital and other equity attributable to the shareholders of the parent	125
26. Technical provisions	128
27. Investment contracts	129
28. Provisions for employee benefits	130
29. Other provisions	132
30. Deferred tax liability	134
31. Current income tax liabilities	136
32. Other liabilities	136
33. Gross written premium	137

34. Revenue from commissions and fees	138
35. Net investment income	139
36. Net profit/loss on realization and impairment loss on investments	140
37. Net change in the fair value of assets and liabilities measured at fair value	140
38. Other operating revenue.....	141
39. Insurance claims and change in technical provisions.....	141
40. Benefits and change in measurement of investment contracts.....	145
41. Acquisition expenses	146
42. Administrative expenses	146
43. Employee expenses.....	146
44. Other operating expenses.....	147
45. Financial expenses	147
46. Exchange differences.....	148
47. Income tax	148
48. Income tax presented in other comprehensive income.....	149
49. Revenue from the exchange of goods and services.....	149
50. Assets used as security of receivables, liabilities and contingent liabilities	149
51. Contingent assets and liabilities.....	150
52. Dispute.....	150
53. Related party transactions	158
54. Employment.....	162
55. Other information.....	162

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	Note	31 December 2013	31 December 2012
Intangible asstes	9	308 726	183 238
Goodwill	10	8 519	8 474
Property, plant and equipment	11	927 281	992 317
Investment property	12	1 474 770	564 404
Companies measured using the equity method	13	48 595	-
Financial assets			
Financial instruments held to maturity	14.1	18 859 902	21 117 559
Financial instruments available for sale	14.2	1 922 173	3 924 501
Financial instruments measured at fair value through profit or loss	14.3	19 790 102	15 628 401
Loans	14.4	14 116 537	9 752 615
Receivables, including receivables from insurance contracts	15	2 664 986	1 835 793
Reinsurers' share in technical provisions	16	526 605	749 334
Estimated recoveries and recourses	18	129 950	121 632
Deferred tax assets	19	16 949	13 963
Current income tax receivables	20	34 895	80 646
Deferred acquisition costs	21	609 819	574 489
Other assets	22	195 449	178 646
Cash and cash equivalents	23	548 266	136 586
Assets used in continuing operations		62 183 524	55 862 598
Assets held for sale	24	178 897	46 962
Total assets		62 362 421	55 909 560

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

Equity and liabilities	Note	31 December 2013	31 December 2012
Equity			
Issued share capital and other equity attributable to the shareholders of the parent			
Share capital	25.1	86 352	86 352
Other capitals		9 061 508	9 105 450
Supplementary capital		8 855 999	8 780 212
Revaluation reserve	25.2	242 344	363 242
Actuarial gains and losses related to provisions for employee benefits		902	-
Exchange differences from translation	25.3	(37 737)	(38 004)
Undistributed profit / uncovered loss		3 963 586	4 998 329
Previous year profit (loss)		2 396 978	1 743 148
Net profit (loss)		3 293 654	3 255 181
Appropriations of net profit in the financial year		(1 727 046)	-
Non-controlling interest		16 341	79 138
Total equity		13 127 787	14 269 269
Liabilities			
Technical provisions	26		
Provision for unearned premiums and for unexpired risks		4 540 011	4 537 167
Life insurance provision		16 048 191	15 675 243
Provisions for outstanding claims and benefits		6 586 781	5 878 445
Provision for capitalized value of annuity claims		5 761 332	5 660 281
Provisions for bonuses and rebates for the insured		2 893	4 227
Other technical provisions		477 987	531 617
Unit-linked technical provisions		3 907 221	3 113 798
Investment contracts	27		
- with guaranteed and fixed terms and conditions		1 250 492	1 297 224
- for the client and at the client's risk		870 545	1 001 923
Provisions for employee benefits	28	123 380	107 307
Other provisions	29	192 906	267 456
Deferred tax liability	30	255 399	357 557
Current income tax liabilities	31	53 372	21 658
Derivatives		237 749	129 921
Other liabilities	32	8 926 375	3 056 467
Liabilities related to continuing operations		49 234 634	41 640 291
Total liabilities		49 234 634	41 640 291
Total equity and liabilities		62 362 421	55 909 560

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

CONSOLIDATED INCOME STATEMENT

Consolidated income statement	Note	1 January - 31 December 2013	1 January - 31 December 2012
Gross written premium	33	16 480 003	16 243 131
Reinsurer's share in the written premium		(257 037)	(237 276)
Net written premium		16 222 966	16 005 855
Change in net provision for unearned premium		25 803	(615)
Net earned premium		16 248 769	16 005 240
Revenue from commissions and fees	34	319 962	237 102
Net investment income	35	1 844 932	2 047 054
Net profit or loss on realization and impairment loss on investments	36	25 045	521 268
Net change in the fair value of assets and liabilities plus equity measured at fair value	37	618 091	1 136 407
Other operating revenue	38	491 109	588 028
Claims, benefits and change in technical provisions	39	(11 195 277)	(12 371 298)
Reinsurers' share in claims, benefits and change in technical provisions		34 053	152 567
Net insurance claims and benefits		(11 161 224)	(12 218 731)
Benefits and change in measurement of investment contracts	40	(77 715)	(176 780)
Acquisition costs	41	(2 015 938)	(2 000 351)
Administrative expenses	42	(1 406 480)	(1 440 301)
Other operating expenses	44	(705 599)	(618 738)
Operating profit (loss)		4 180 952	4 080 198
Financial expenses	45	(61 664)	(41 490)
Share in net profit (loss) of entities measured using the equity method		1 404	
Gross profit (loss)		4 120 692	4 038 708
Income tax	47		
- current portion		(885 776)	(568 541)
- deferred portion		60 197	(216 341)
Net profit (loss) from continuing operations		3 295 113	3 253 826
Net profit (loss), including:		3 295 113	3 253 826
- profit (loss) attributable to equity holders of the parent		3 293 654	3 255 181
- profit (loss) attributable to non-controlling interest		1 459	(1 355)
Net profit (loss) from continuing operations		3 293 654	3 255 181
Net profit (loss) from discontinued operations		-	-
Weighted average basic and diluted number of ordinary shares		86 352 300	86 352 300
Basic and diluted profit (loss) on continuing operations per ordinary share (in PLN)		38.14	37.70
Basic and diluted profit (loss) per ordinary share (in PLN)		38.14	37.70

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income	Note	1 January - 31 December 2013	1 January - 31 December 2012
Net profit (loss)		3 295 113	3 253 826
Other comprehensive income	48	(104 510)	88 660
Amounts subject to subsequent transfer to profit or loss		(104 510)	88 660
Measurement of financial instruments available for sale		(120 129)	77 654
Actuarial gains and losses related to provisions for employee benefits		902	-
Exchange differences from translation		292	(5 751)
Other comprehensive income of entities measured using the equity method		(20)	-
Real property reclassified from property, plant and equipment to investment property		14 445	16 757
Not reclassified to profit or loss at a later date		-	-
Net comprehensive income total		3 190 603	3 342 486
- comprehensive income attributable to holders of the parent's equity		3 189 139	3 343 851
- comprehensive income attributable to non-controlling interests		1 464	(1 365)

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

(in PLN '000)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital								Non-controlling interest	Total equity	
	Other capitals				Undistributed profit / uncovered loss						
	Share capital	Supplementary capital	Revaluation reserve	Actuarial gains and losses related to provisions for employee benefits	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)	Appropriation s of net profit in the financial year (negative amount)			Total
Note	25.1		25.2		25.3						
Balance as at 1 January 2013	86 352	8 780 212	363 242	-	(38 004)	4 998 329	-	-	14 190 131	79 138	14 269 269
Change in measurement of available for sale financial assets	-		(120 129)	-	-	-	-	-	(120 129)	-	(120 129)
Other comprehensive income of entities measured using the equity method	-	-	-	-	(20)	-	-	-	(20)	-	(20)
Exchange differences from translation	-	-	-	-	287	-	-	-	287	5	292
Actuarial gains and losses related to provisions for employee benefits	-	-		902	-	-	-	-	902	-	902
Real property reclassified from property, plant and equipment to investment property	-	-	14 445	-	-	-	-	-	14 445	-	14 445
Total other comprehensive income, net	-	-	(105 684)	902	267	-	-	-	(104 515)	5	(104 510)
Net profit (loss)	-	-	-	-	-	-	3 293 654	-	3 293 654	1 459	3 295 113
Total comprehensive income	-	-	(105 684)	902	267	-	3 293 654	-	3 189 139	1 464	3 190 603
Other changes, including:	-	75 787	(15 214)	-	-	(2 601 351)	-	(1 727 046)	(4 267 824)	(64 261)	(4 332 085)
Financial profit distribution	-	34 231	-	-	-	(2 599 579)	-	(1 727 046)	(4 292 394)	-	(4 292 394)
Capital injection to PZU Lietuva	-	-	-	-	-	-	-	-	-	30	30
Consolidation of PZU Lietuva GD	-	-	-	-	-	-	-	-	-	183	183
Purchase of shares in Armatura Kraków	-	24 568	-	-	-	-	-	-	24 568	(64 474)	(39 906)
Disposal of revalued real property	-	16 988	(15 214)	-	-	(1 772)	-	-	2	-	2
Balance as at 31 December 2013	86 352	8 855 999	242 344	902	(37 737)	2 396 978	3 293 654	(1 727 046)	13 111 446	16 341	13 127 787

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY (CONT.)

Statement of changes in consolidated equity	Equity and provisions attributable to owners of the parent's share capital						Non-controlling interest	Total equity	
	Other capitals				Undistributed profit / uncovered loss				
	Share capital	Supplementary capital	Revaluation reserve	Exchange differences from translation	Previous year profit (loss)	Net profit (loss)			Total
Note	25.1		25.2	25.3					
Balance as at 1 January 2012	86 352	7 711 818	268 831	(32 263)	4 748 424	-	12 783 162	86 343	12 869 505
Change in measurement of AFS financial assets	-	-	77 654	-	-	-	77 654	-	77 654
Exchange differences from translation	-	-	-	(5 741)	-	-	(5 741)	(10)	(5 751)
Real property reclassified from property, plant and equipment to investment property	-	-	16 757	-	-	-	16 757	-	16 757
Total other comprehensive income, net	-	-	94 411	(5 741)	-	-	88 670	(10)	88 660
Net profit (loss)	-	-	-	-	-	3 255 181	3 255 181	(1 355)	3 253 826
Total comprehensive income	-	-	94 411	(5 741)	-	3 255 181	3 343 851	(1 365)	3 342 486
Other changes, including:	-	1 068 394	-	-	(3 005 276)	-	(1 936 882)	(5 840)	(1 942 722)
Financial profit distribution	-	1 068 113	-	-	(3 004 995)	-	(1 936 882)	(5 860)	(1 942 742)
Other	-	281	-	-	(281)	-	-	20	20
Balance as at 31 December 2012	86 352	8 780 212	363 242	(38 004)	1 743 148	3 255 181	14 190 131	79 138	14 269 269

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows	Note	1 January - 31 December 2013	1 January - 31 December 2012
Cash flows from operating activities			
Inflows		19 673 140	19 384 276
- gross inflows from insurance premiums		16 065 448	16 324 691
- inflows from investment contracts		1 097 951	1 859 439
- inflows from reinsurance commissions and share in reinsurers' profits		69 069	13 967
- reinsurers' payments due to share in claims		281 363	133 668
- inflows from claims handling services		229 562	230 235
- inflows from sale of units by investment fund		667 262	-
- other inflows from operating activities		1 262 485	822 276
Outflows		(16 840 369)	(18 155 919)
- insurance premiums paid due to reinsurance		(242 809)	(196 190)
- paid commissions and profit sharing due to outward reinsurance		(1 685)	(2 521)
- gross claims paid		(8 354 637)	(8 901 396)
- claims paid due to investment contracts		(1 334 843)	(3 186 306)
- outflows due to acquisition		(1 673 032)	(1 524 373)
- administrative outflows		(2 075 101)	(2 137 169)
- interest payments		(415)	(65)
- income tax payments		(863 601)	(664 465)
- outflows from claims handling services		(474 690)	(439 757)
- outflows from purchase of units by investment fund		(402 519)	-
- other operating outflows		(1 417 037)	(1 103 677)
Net cash flows generated by operating activities		2 832 771	1 228 357
Cash flows from investment activities			
Inflows		657 482 806	360 665 055
- disposal of investment property		20 982	-
- inflows from investment property		134 991	8 594
- disposal of intangible assets and property, plant and equipment		12 177	13 917
- disposal of shares		8 201 739	3 379 218
- redemption of debt securities		114 078 782	56 717 604
- sales of debt securities under buy-sell-back transactions		360 885 329	149 885 455
- withdrawal of term deposits at credit institutions		152 486 255	139 511 297
- cash from other investments		18 892 364	9 679 935
- interest received		2 163 196	1 336 736
- dividends received		127 240	131 507
- cash inflows due to change of consolidation scope	3.4.1	479 751	792

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

Consolidated statement of cash flows	Note	1 January - 31 December 2013	1 January - 31 December 2012
Outflows		(659 878 598)	(360 243 667)
- acquisition of investment property		(391 751)	-
- payments for maintenance of investment property		(87 860)	(14 605)
- acquisition of intangible assets and property, plant and equipment		(225 114)	(144 881)
- acquisition of shares		(9 577 388)	(9 116 873)
- decrease in cash due to elimination of investment funds from consolidation	2.2	(14 551)	-
- acquisition of debt securities		(114 022 255)	(56 903 331)
- opening buy-sell-back transactions		(362 298 300)	(151 113 561)
- opening term deposits with credit institutions		(155 299 282)	(139 194 248)
- acquisition of other investments		(17 951 679)	(3 747 925)
- other payments for investments		(10 418)	(8 243)
Net cash used in/generated by investment activities		(2 395 792)	421 388
Cash flows from financing activities			
Inflows		106 079 401	81 451 416
- loans and borrowings and issues of debt securities ¹⁾		106 079 401	81 451 416
Outflows		(106 098 984)	(83 198 530)
- dividends paid to holders of the parent's equity		(4 166 166)	(1 873 391)
- dividends paid to non-controlling interest		-	(5 860)
- repayment of loans and borrowings and redemption of debt securities ¹⁾		(101 917 859)	(81 312 622)
- interest on credit facilities, loans and issued debt securities		(14 959)	(6 657)
Net cash used in financing activities		(19 583)	(1 747 114)
Total net cash flows		417 396	(97 369)
Cash and cash equivalents at the beginning of the financial year		136 586	237 724
Change in cash due to exchange differences		(5 716)	(3 769)
Cash and cash equivalents at the end of the financial year, including:	23	548 266	136 586
- of limited disposability		110 819	24 794

¹⁾ These items above almost all include cash flows resulting from short term sell-buy-back transactions.

ADDITIONAL INFORMATION AND EXPLANATORY NOTES

1. Introduction

Compliance statement

These consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (henceforth: the consolidated financial statements and the PZU Group, respectively) have been prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Commission.

Entities of PZU Group maintain their accounting records in accordance with local GAAP, while these consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Reporting period

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2013 to 31 December 2013.

Financial Statements approval

These consolidated financial statements were signed and approved for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent) on 11 March 2014 and shall be subject to approval of the General Shareholders Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Functional and presentation currency

The Polish zloty (PLN) is the PZU functional and presentation currency. Unless expressly stated otherwise, all financial data presented in the consolidated financial statements are expressed in PLN thousand.

Going concern assumption

The consolidated financial statements have been prepared based on the assumption that the PZU Group entities will operate as a going concern during the period of at least 12 months following the balance sheet date. As at the date of signing the consolidated financial statements, no facts and circumstances indicate a risk to the Group entities' ability to operate as a going concern during 12 months after the balance sheet date due to the intended or forced discontinuation, with the exception of companies in liquidation that did not conduct operating activities as at the balance sheet date, whose liquidation can be completed.

Discontinued activities

In 2013, entities included in consolidation did not discontinue any activity.

2. Structure of the Capital Group

2.1 PZU

The PZU Group's parent company is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II 24. PZU was established as a result of transforming Państwowy Zakład Ubezpieczeń into a joint stock company wholly owned by the State Treasury pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Journal of Laws No. 11 of 1996 item 62 with subsequent amendments).

PZU is entered to the register of entrepreneurs of the National Court Register kept by the District Court for the Capital City of Warsaw, XII Business Division, under number KRS 0000009831.

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

2.2 PZU Group companies

No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Non-life insurance.
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	Warsaw	18.12.1991	100.00%	100.00%	100.00%	100.00%	Life insurance.
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU”)	Warsaw	08.12.1998	100.00%	100.00%	100.00%	100.00%	Pension fund management.
4	PZU Centrum Operacji SA („PZU CO”)	Warsaw	30.11.2001	100.00%	100.00%	100.00%	100.00%	Auxiliary activity related to insurance and pension funds.
5	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	Warsaw	30.04.1999	100.00%	100.00%	100.00%	100.00%	Creation, representing and management of investment funds.
6	PZU Asset Management SA („PZU AM”)	Warsaw	12.07.2001	100.00%	100.00%	100.00%	100.00%	Management of securities portfolios for the account of third parties.
7	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100.00%	100.00%	Assistance services.
8	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA”)	Warsaw	13.08.2004	100.00%	100.00%	100.00%	100.00%	Management of employee pension fund.
9	PrJSC IC PZU Ukraine („PZU Ukraine”)	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Non-life insurance.
10	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life”)	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Life insurance.
11	UAB DK PZU Lietuva („PZU Lietuva”)	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99.76%	99.76%	Non-life insurance.
12	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance.

No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
13	PZU Finanse Sp. z o.o. ¹⁾	Warsaw	08.11.2013	100.00%	n/a	100.00%	n/a	The Company does not conduct activities.
14	Tower Inwestycje Sp. z o.o. („Tower Inwestycje”)	Warsaw	27.08.1998	100.00%	100.00%	100.00%	100.00%	Other services excluding insurance and pension funds.
15	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100.00%	100.00%	Acquisition, operation, lease and disposal of real property.
16	Armatura Kraków SA ²⁾	Cracow	07.10.1999	92.75%	63.83%	92.75%	63.83%	Armatura Group products' distribution, management of the Group.
17	Armatoora SA ²⁾	Nisko	10.12.2008	92.75%	63.83%	92.75%	63.83%	Production and distribution of radiators and sanitary fixtures.
18	Armaton SA (formerly Armatoora SA i wspólnicy sp. k.) ²⁾	Cracow	10.02.2009	92.75%	63.83%	92.75%	63.83%	Use of free funds, development investments.
19	Armagor SA ²⁾	Cracow	06.09.2009	92.75%	63.83%	92.75%	63.83%	Manufacturing of bathroom (water and gas) and central heating fittings.
20	Armadimp SA ²⁾	Cracow	20.07.2012	92.75%	63.83%	92.75%	63.83%	Manufacturing of ceramic sanitary fixtures.
21	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100.00%	100.00%	Business assistance services and medical services.
22	Ipsilon Bis SA	Warsaw	02.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
23	Omicron SA	Warsaw	13.09.2011	100.00%	100.00%	100.00%	100.00%	The Company does not conduct activities.
24	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100.00%	100.00%	Assistance services.
25	PZU SFIO Universum (d. PZU SFIO Dłużny)	Warsaw	15.12.2009	n/a	n/a	n/a	n/a	Investment of funds collected from members.
26	PZU FIZ Akcji	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	As above.
27	PZU FIZ Dynamiczny	Warsaw	27.01.2010	n/a	n/a	n/a	n/a	As above.
28	PZU FIZ Sektora Nieruchomości ³⁾	Warsaw	01.07.2008	n/a	n/a	n/a	n/a	As above.
29	PZU FIZ Sektora Nieruchomości ^{2 3)}	Warsaw	21.11.2011	n/a	n/a	n/a	n/a	As above.

No.	Entity's name	Registered office	Date of commencing control/ significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				31 December 2013	31 December 2012	31 December 2013	31 December 2012	
Entities included in consolidation (cont.)								
30	PZU FIZ Sektora Nieruchomości 3 ³⁾	Warsaw	24.02.2012	n/a	n/a	n/a	n/a	As above.
31	PZU FIZ Aktywów Niepublicznych BIS 1	Warsaw	12.12.2012	n/a	n/a	n/a	n/a	As above.
32	PZU FIZ Aktywów Niepublicznych BIS 2 („PZU FIZ AN BIS 2")	Warsaw	19.11.2012	n/a	n/a	n/a	n/a	As above.
33	PZU Dłużny Rynków Wschodzących	Warsaw	20.11.2006	n/a	n/a	n/a	n/a	As above.
34	PZU FIZ Aktywów Niepublicznych RE Income ³⁾	Warsaw	08.11.2011	n/a	n/a	n/a	n/a	As above.
35	PZU FIO Gotówkowy ⁴⁾	Warsaw	01.07.2005	n/a	n/a	n/a	n/a	As above.
Joint control entity								
36	Armatura Tower Sp. z o.o.	Cracow	08.11.2013	50.00%	n/a	50.00%	n/a	Implementation of construction projects.
Affiliates								
37	GSU Pomoc Górniczy Klub Ubezpieczonych SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance services.
38	EMC Instytut Medyczny SA ⁵⁾	Wrocław	18.06.2013	29.87%	9.95%	25.31%	8.43%	Health protection, R&D in medical sciences and pharmacy.

¹⁾ Additional information concerning establishment of the company has been presented in Section 2.3.5.

²⁾ Concerning the change in the shareholding of Armatura Kraków has been presented in Section 2.3.3.

³⁾ As at 31 December 2013, the funds PZU FIZ Sektora Nieruchomości, PZU FIZ Sektora Nieruchomości 2, PZU FIZ Sektora Nieruchomości 3, PZU FIZ RE Income carried out investment activities via subsidiaries, i.e. special purpose vehicles operating in the form of commercial companies investing in individual properties. Each investment fund invested in 37, 8, 9, 6 properties, respectively (1 January 2013: 33, 8, 12, 6).

⁴⁾ Consolidated from 1 April 2013.

⁵⁾ Purchase of the entity described in section 2.3.2.

The assumptions made by the PZU Group upon consolidation of investment funds have been presented in Section 4.1. Due to a decrease in the share of the PZU Group in the net assets of consolidated investment funds below 50%, the following funds have been eliminated from consolidation:

- PZU Energia Medycyna Ekologia sub-fund – effective from 1 July 2013;
- PZU FIZ Forte fund – effective from 31 December 2013.

As a result of elimination of the aforesaid funds from consolidation, the presented balance of cash held by the PZU Group decreased by PLN 14,551 thousand ("decrease in cash due to elimination of investment funds from consolidation" in the consolidated statement of cash flows).

As at 31 December 2013, in addition to the entities specified in the table above, the PZU Group held:

- 100% of shares in Syta Development sp. z o.o. in liquidation, whose value in the consolidated statement of financial position of the PZU Group was zero. As the company is being liquidated, it is controlled by the official receiver and as such, not subject to consolidation;
- shares in or investment certificates issued by the following funds, where the share of the PZU Group in the net assets exceeded 20% (exclusive of assets held under unit-linked insurance and investment contracts): PZU Energia Medycyna Ekologia sub-fund, PZU Akcji Rynków Wschodzących sub-fund, PZU Akcji Spółek Dywidendowych sub-fund, PZU FIZ Forte.

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

2.3.1. Changes in consolidation of entities and investment funds

Information concerning changes in the scope of consolidated entities as well as those measured using the equity method since 1 January 2013 and their effect on these consolidated financial statements has been presented in Section 3.4.1.

2.3.2. Acquisition of shares in EMC Instytut Medyczny

After the acquisition of shares at the stock exchange on 18 June 2013, the stake of the PZU Group entities (mainly investment funds managed by TFI PZU) went up to 1,969,817 shares in EMC Instytut Medyczny SA ("EMC"), accounting for 23.66% of interest in the share capital of that company and 20.04% of votes at its General Shareholders' Meeting.

Therefore, EMC was measured using the equity method. The acquisition of EMC was accounted for on the basis of the consolidated financial statements of EMC prepared as at 30 June 2013. Only EMC shares held by consolidated investment funds were measured using the equity method. Upon measurement using the equity method, the aforesaid shares represented 15.57% of the interest in the capital of EMC and 13.19% of votes at the general meeting.

Since the date of EMC's measurement using the equity method, the PZU FIZ AN BIS 2 investment fund has been increasing the number of EMC's shares held, by purchasing additional shares in stock market transactions and from non-consolidated PZU Group investment funds.

As at 31 December 2013, all EMC shares held by PZU Group entities were in the portfolio of the PZU FIZ AN BIS 2 fund, which owns 2,487,268 shares in EMC representing 29.87% of the company's share capital and 25.31% of votes at the general meeting.

On 23 December 2013, PZU FIZ AN BIS 2 entered into a promised contract providing for the acquisition of 948,370 newly issued shares in EMC with the par value of PLN 4.00 per share and the issue price of PLN 19.50 per share. The total acquisition price for the newly issued shares was PLN 18,493 thousand. As the increase in capital had not been registered by 31 December 2013, the aforesaid amount has been presented as receivables in the statement of financial position.

Accounting for the acquisition of EMC shares and measurement using the equity method have been presented in Section 13.1.

2.3.3. Increased interest in the capital of Armatura Kraków SA

In the year ended 31 December 2013, the consolidated PZU FIZ AN BIS 2 investment fund increased its interest in the capital of Armatura Kraków SA through settlement of the following transactions:

- On 28 October 2013 – under the tender offer of 30 August 2013 – by 15,129,960 shares;
- On 31 October 2013 – in stock market transactions – by 1,217,197 shares;
- On 18 December 2013 – under the tender offer of 6 November 2013 – by 7,078,381 shares.

As a result of the aforesaid transactions, as at 31 December 2013, PZU FIZ AN BIS 2 held the total of 75,125,538 shares representing 92.75% of the share capital of Armatura Kraków SA and 92.75% of votes at the General Meeting.

As a result of squeeze-out, on 23 January 2014 PZU FIZ AN BIS 2 acquired 5,517,888 shares in Armatura Kraków SA. As a result of the aforesaid transaction, PZU FIZ AN BIS 2 held the total of 80,643,426 shares representing 99.56% of the share capital of Armatura Kraków SA and 99.56% of votes at the General Meeting.

On 9 January 2014, an application for the authorization to restore the document form of the shares in Armatura Kraków, i.e. cancellation of their dematerialization, was filed with the Polish Financial Supervision Authority ("PFSA"). On 18 February 2014, PFSA granted its authorization for share dematerialization. Pursuant to the aforesaid decision, as of 10 March Armatura Kraków was no longer subject to the obligations arising from the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2013, item 1382).

2.3.4. Sale of shares in KGJK

On 24 September 2013, PZU FIZ AN BIS 2 sold 310,620 shares in its associate, KGJK, representing 37.525% of its share capital, for PLN 24,850 thousand. After the aforementioned transaction has been settled, the PZU Group entities do not hold any shares in KGJK, which no longer has the status of an associated entity in the PZU Group.

The profit on sale of KGJK's shares, in the amount of PLN 8,263 thousand, has been presented under "Net profit/loss on realization and impairment losses on investments".

2.3.5. Establishment of PZU Finanse Sp. z o.o.

On 30 October 2013, a new company, PZU Finanse Sp. z o.o., was established. The share capital of the new company is PLN 50 thousand and it is divided into 100 shares of PLN 500 each. All shares were acquired by PZU. On 8 November 2013, the company was entered into the National Court Register.

3. Key accounting principles (policy)

These consolidated financial statements have been prepared in accordance with IFRS as endorsed by the EC Commission, which means they comply with all Standards and Interpretations adopted by IASB, published and effective as at 31 December 2013 and approved by EC Commission.

The process of preparing of consolidated financial statements requires making estimates and judgments in application of accounting principles. Areas that require comprehensive assessment and those most dependent on assumptions and estimates are presented in section 4.

The financial statements have been drawn up on historical cost basis, except from revaluation of investment property and some financial instruments, which are measured at fair value.

3.1 Introduction of new IFRS

3.1.1. Standards and interpretations as well as amended standards effective from 1 January 2013

The following new standards, interpretations and revised standards have been applied to these consolidated financial statements:

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-employment Benefits	1 January 2013	475/2012	The most important amendments are: (1) eliminating an option to defer the recognition of gains and losses, known as the "corridor method"; (2) streamlining the presentation of changes in assets and liabilities arising from defined benefit plans (including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations); (3) enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. As a result of implementation of the revised IAS 19, the PZU Group has presented a number of new disclosures concerning employee benefits. Actuarial gains and losses have been presented in other comprehensive income and not in the profit of loss, as before.
IFRS 13 - "Fair Value Measurement"	1 January 2013	1255/2012	IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. Application of the new IFRS has resulted in a significant extension of the scope of fair value disclosures.
Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets	1 January 2012 ¹⁾	1255/2012	IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment Property". The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The aforesaid change did not exert any effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011 ¹⁾	1255/2012	Changes: (1) replacement of references to a fixed date of "1 January 2004" with "the date of transition to IFRSs"; (2) providing guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The change does not affect the PZU Group.

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013	1255/2012	The interpretation states that costs associated with a "stripping activity" should be accounted for as an addition to, or an enhancement of, an existing asset, and that this component should be amortised over the expected useful life of the of the identified component of the ore body that becomes more accessible as a result of the stripping activity (using the units of production method unless another method is more appropriate). The change does not affect the PZU Group.
Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities	1 January 2013	1256/2012	The amendments require information about: (1) all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32; (2) disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans	1 January 2013	183/2013	This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" in 2008. The change does not affect the PZU Group.
Amendments to 2009 -2011	1 January 2013	301/2013	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: repeated application of IFRS 1, borrowing costs under IFRS 1, clarification of the requirements for comparative information, classification of servicing equipment, tax effect of distribution to holders of equity instruments, interim financial reporting and segment information for total assets and liabilities. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

¹⁾ The EC voted in favor of the regulation to be applicable to annual periods beginning on or three days after publication, which took place on 29 December 2012, at the latest (periods beginning on or after 1 January 2013).

3.1.2. Standards, Interpretations and amended Standards issued but not effective as at the financial statements date

Standards, Interpretations and amended Standards issued but not effective as at the financial statements date:

- Approved by European Commission:

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRS 10 "Consolidated Financial Statements"	1 January 2013 ¹⁾	1254/2012	IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the returns. Following the application of IFRS 10, effective from the beginning of 2014, PZU Energia Medycyna Ekologia sub-fund, PZU Akcji Rynków Wschodzących sub-fund, PZU Akcji Spółek Dywidendowych sub-fund and PZU FIZ Forte will be consolidated. In effect, assets and liabilities of the consolidated funds will be recognized as on-balance sheet assets and liabilities instead of units. This will lead to an increase in the balance sheet total of ca. PLN 4,600 thousand. Due to retrospective application of the new standard, the 2013 figures will be restated.
IFRS 11 "Joint Arrangements"	1 January 2013 ¹⁾	1254/2012	IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. Application of IFRS 11 will not exert any significant effect on the consolidated financial statements of the PZU Group.

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
IFRS 12 "Disclosures of Interests in Other Entities"	1 January 2013 ¹⁾	1254/2012	IFRS 12 will require enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. Application of IFRS 12 will require additional disclosures in the consolidated financial statements (mainly as regards the associates held as well as entities with non-controlling interest).
Transition Guidance (Amendments do IFRS 10, IFRS 11 and IFRS 12)	1 January 2013 ¹⁾	313/2013	The amendments are intended to provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12, by "limiting the requirement to provide adjusted comparative information to only the preceding comparative period".
Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities	1 January 2014	1174/2013	The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities. The change does not affect the PZU Group.
Revised IAS 27 "Separate Financial Statements"	1 January 2013 ¹⁾	1254/2012	The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10. The change does not affect the PZU Group.
Revised IAS 28 "Investments in Associates and Joint Ventures"	1 January 2013 ¹⁾	1254/2012	IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.
Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities	1 January 2014	1256/2012	Amendments provide clarifications on the application of the offsetting rules and focus on four main areas: the meaning of "currently has a legally enforceable right of set-off"; the application of simultaneous realisation and settlement; the offsetting of collateral amounts; the unit of account for applying the offsetting requirements. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation	Description
Amendments to IAS 36 "Impairment of assets"	1 January 2014	1374/2013	Narrow-scope amendments to IAS 36 address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	1375/2013	The narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met The aforesaid change will not have any effect on the consolidated financial statements of the PZU Group (hedge accounting is not applied).

¹⁾ The EC voted in favor of the regulation to be applicable to annual periods beginning on 1 January 2014 at the latest (early application is allowed).

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 9 "Financial Instruments"	12 November 2009 16 December 2011 (update)	On 19 November 2013, the International Accounting Standards Board announced postponement of the obligatory effective date of the standard, as the impairment phase had not been completed. The new effective date will be agreed in the future, nearer the date of completion of the IFRS 9 project.	On 19 November 2013 IASB issued another package of amendments to the accounting requirements for financial instruments. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss. The amendments from November 2013 bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. Considering the remote and not defined effective date and expected further changes in the accounting principles applicable to financial instruments, partly related to the current works on gradual replacement of IAS 39 effective at present with new regulations, the effect of application of IFRS 9 on the comprehensive income and equity of the PZU Group has not been assessed.
Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions	21 November 2013	1 July 2014	The narrow scope amendments in IAS 19 apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRS 14 "Regulatory Deferral Accounts"	30 January 2014	1 January 2016	This Standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS. The change does not affect the PZU Group.
Amendments to IFRS 2010-2012	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: definition of 'vesting condition'; accounting for contingent consideration in a business combination; aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; measuring short-term receivables and payables; proportionate restatement of accumulated depreciation application in revaluation method and clarification on key management personnel. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.
Amendments to IFRS 2011-2013	12 December 2013	1 July 2014	Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording. The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: meaning of effective IFRSs in IFRS 1; scope of exception for joint ventures; (iii) scope of paragraph 52 of IFRS 13 (portfolio exception) and clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)	Description
IFRIC 21 "Levies"	20 May 2013	1 January 2014	IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group.

Summing up – the aforesaid change does not exert any significant effect on the consolidated financial statements of the PZU Group, except IFRS 9 and IFRS 10.

3.2 Changes in accounting principles (policy)

In 2013 no changes to the Accounting Policy were introduced.

3.3 Changes in method of preparation of the consolidated financial statements in comparison to previous year

In 2013, the following change was made to the method of preparation of the consolidated financial statements compared to the financial statements of the PZU Group for 2012:

- at the beginning of 2013, the Group changed the presentation method applied to segment reporting note, drawn up in accordance with IFRS 8. The method for aggregation of financial data to segments, described in section 5 includes consolidation of subsidiaries (companies and investment funds) which were not previously consolidated, and application of measurement of associates using the equity method, described in detail in section 3.4.1;
- with a view to presenting provisions for employee benefits as one item of the statement of financial position, liabilities due to unused annual leave, as referred to in Section 3.19.4, have been transferred from accrued expenses to "Provisions for employee benefits".

3.4 Consolidation principles

In 2013 all PZU subsidiaries have been included in consolidation.

These consolidated financial statements include data of the parent company and its subsidiaries, after elimination of intercompany transactions.

The financial statements of the subsidiaries are prepared for the same reporting period as the financial statements of the parent, with a proviso that the financial statements of the consolidated investment funds are prepared as at the date of publication of the last official valuation of units in or investment certificates issued by the funds, which serves as the basis for recognition of measurement of the funds in the financial statements of the consolidated PZU Group entities.

The principles applicable to translation of assets, liabilities and comprehensive income of foreign subsidiaries have been presented in Section 3.16.5.

3.4.1. Change in the principles of consolidation

In the previous years till the end of 2012, the PZU Group included all material subsidiaries in the consolidation. Materiality was determined on the basis of the revenue earned, absolute value of the profit/loss and balance sheet total.

Effective from 1 January 2013 the Group discontinued the materiality criterion and as a consequence, as of 1 January 2013, all PZU subsidiaries have been included in consolidation, i.e. the following were included in consolidation:

- Towarzystwo Funduszy Inwestycyjnych PZU SA;
- PZU Asset Management SA;
- PZU Pomoc SA;
- Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA;
- PrJSC IC PZU Ukraine Life Insurance;
- UAB PZU Lietuva Gyvybes Draudimas;
- Ipsilon Sp. z o.o.;
- Ipsilon Bis SA;
- Omicron SA;

- LLC SOS Services Ukraine;
- PZU FIZ Sektora Nieruchomości;
- PZU FIZ Sektora Nieruchomości 2;
- PZU FIZ Sektora Nieruchomości 3;
- PZU FIZ Aktywów Niepublicznych BIS 1;
- PZU FIZ Aktywów Niepublicznych BIS 2;
- PZU Energia Medycyna Ekologia;
- PZU Dłużny Rynków Wschodzących;
- PZU FIZ Forte;
- PZU FIZ Aktywów Niepublicznych RE Income.

Consolidation denotes that the assets and liabilities of the entities are recognized under appropriate items of these consolidated financial statements, instead of presentation of the value of investments in the subsidiary (companies: at cost less impairment losses; investment funds: at fair value) under appropriate items of "Financial assets".

In the previous years, until the end of 2012, the materiality criterion also applied to associates; as of 1 January 2013, when the materiality criterion was discontinued, the following companies were measured using the equity method:

- Kolej Gondolowa Jaworzyna Krynicka SA (information about further disposal of the entity is described in section 2.3.4);
- GSU Pomoc Górniczy Klub Ubezpieczonych SA.

Measurement using the equity method denotes that the value of investments in the associate, measured using the equity method, is presented as a separate item of assets, i.e. "Entities measured using the equity method", instead of their recognition at cost less impairment losses under "Financial assets – Financial instruments available for sale".

The aforesaid changes were recognized in the consolidated financial statements on 1 January 2013 and the effects (of the balance sheet measurement of those assets as at 31 December 2012 and the net assets of those entities as at 1 January 2013) were charged to the profit/loss.

As a result of consolidation of subsidiaries (companies and investment funds), the balance of cash increased by PLN 479,751 thousand ("increase in cash due to changes in the scope of consolidation" in the consolidated statement of cash flows).

3.4.1.1. Subsidiaries subject to consolidation

As at 1 January 2013, the differences between the net assets of the companies included in the consolidation and the carrying amount of investments in a given entity are presented in the consolidated financial statements as follows:

- Gains - under "Other operating income";
- Losses - under "Other operating expenses"

Reconciliation of the effect of consolidation of subsidiaries from 1 January 2013	Assets	Liabilities	Net assets	Carrying amount of shares (at historical cost including impairment)	PZU Group's share in the equity	PZU Group's share in net assets	Impact on the consolidated profit/loss of the PZU Group
Towarzystwo Funduszy Inwestycyjnych PZU SA	71 421	27 636	43 785	24 793	100.00%	43 785	18 992
PZU Asset Management SA	12 621	1 982	10 639	4 642	100.00%	10 639	5 997
Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	1 578	226	1 352	500	100.00%	1 352	852
Total – impact on other operating income							25 841
PrJSC IC PZU Ukraine Life Insurance	32 884	26 105	6 779	25 921	100.00%	6 779	(19 142)
UAB PZU Lietuva Gyvybes Draudimas	79 680	52 639	27 041	40 235	99.34%	26 863	(13 372)
PZU Pomoc	19 729	3 564	16 165	18 565	100.00%	16 165	(2 400)
LLC SOS Services Ukraine	694	151	543	729	100.00%	543	(186)
Ipsilon Bis SA	87	3	84	100	100.00%	84	(16)
Ipsilon Sp. z o.o.	38	1	37	52	100.00%	37	(15)
Omicron SA	100	3	97	100	100.00%	97	(3)
Total – impact on other operating expenses							(35 134)
Total – impact on the consolidated profit/loss							(9 293)

3.4.1.2. Subsidiaries – investment funds subject to consolidation

As at 1 January 2013, the item "Other liabilities" includes amounts of investments made by investors from outside the PZU Group in the consolidated investment funds.

Until 31 December 2012, investments made in some of the investment funds were classified as assets available for sale, whereas changes in the fair value were recognized under "Revaluation reserve". On 1 January 2013, the balances in this respect recognized under "Revaluation reserve" were reclassified to the consolidated profit and loss account and recognized under "Net change in the fair value of assets and liabilities measured to fair value".

The table below presents the financial data of consolidated investment funds.

Investment fund	Total fund's consolidated assets as at 1 January 2013	The amount reclassified from the „Revaluation reserve” to the consolidated income statement as at 1 January 2013	Liabilities to investors outside the PZU Group included in „Other liabilities” as at 1 January 2013
PZU FIZ Sektora Nieruchomości ¹⁾	423 814	120 815	-
PZU FIZ Sektora Nieruchomości 2 ¹⁾	505 604	782	-
PZU FIZ Sektora Nieruchomości 3 ¹⁾	8 592	(1 408)	-
PZU FIZ Aktywów Niepublicznych BIS 1 ²⁾	500	-	-
PZU FIZ Aktywów Niepublicznych BIS 2 ²⁾	107 640	27 640	-
Subfundusz PZU Energia Medycyna Ekologia ³⁾	187 407	-	80 100
Subfundusz PZU Dłużny Rynków Wschodzących ²⁾	319 969	28 031	6 182
PZU FIZ Forte ^{2) 3)}	107 020	92	6 928
PZU FIZ Aktywów Niepublicznych RE Income ¹⁾	169 645	3 410	36 233
Subfundusz PZU FIO Gotówkowy ^{2) 4)}	473 008	5 265	151 072
Total	2 303 199	184 627	280 515

¹⁾ The amount was reclassified from „Revaluation reserve” to the consolidated income statement as a consequence of reclassification, as at the date of consolidation of the fund, of the fund's real property to property measured at fair value in accordance with the PZU Group's policy on investment property, in particular paragraph 35 of IAS 40 „Investment Property”.

²⁾ The reclassification of the amount from „Revaluation reserve” to the consolidated income statement concerns those financial assets which were classified as measured at fair value through profit or loss – classified as such upon initial recognition.

³⁾ Information concerning elimination of the fund from consolidation has been presented in Section 2.2.

⁴⁾ Data as at the date of inclusion in the consolidation, i.e. 1 April 2013.

3.4.1.3. Associates – companies measured using the equity method

As at 1 January 2013, the differences between the PZU Group's share in the net assets of the companies included in the measurement using the equity method and the carrying amount of investments in the associates are presented under „Other operating income” in the consolidated profit and loss statement.

Reconciliation of the effect of measurement of associates using the equity method	1 January 2013
Assets	47 875
Liabilities	6 275
Net assets	41 600
Carrying value of shares	5 888
PZU Group's share in net consolidated assets of companies	15 439
Total impact on the consolidated gross profit/loss	9 551

3.5 Currency exchange rates

The following currency exchange rates have been adopted herein to translate data of foreign controlled entities:

Currency exchange rates adopted to translate financial data of foreign controlled entities	1 January – 31 December 2013	31 December 2013	1 January – 31 December 2012	31 December 2012
LTL	1.2196	1.2011	1.2087	1.1840
UAH	0.3886	0.3706	0.4001	0.3825

The rates are:

- average rates of the National Bank of Poland ruling as at the balance sheet date – for the statement of financial position;
- rates determined as the arithmetic mean of the rates published by the National Bank of Poland, ruling as at the last day of each month of a given period - for the income statement, statement of comprehensive income and statement of cash flows.

3.6 Intangible assets

Intangible assets are recognized when they are likely to cause an inflow of economic benefits in the future that can be attributed to these assets and they include acquired property rights, classified as non-current assets, suitable for economic use, with expected useful life longer than one year, to be used for internal needs.

Intangible assets include in particular: computer software, copyright, licenses and concessions.

Intangible assets are measured at acquisition price at cost less increased by costs directly related to acquisition and preparation of the asset for use, less amortization charges and impairment loss.

Intangible assets are amortized using the straight line method over the expected useful life, in line with the amortization plan. Intangible assets are amortized over two to five years

If appropriate, following a case-by-case analysis, the entity may apply another amortization rate suitable for the estimated useful life of the intangible asset. As the product system is planned to be used by PZU for 10 years, the adopted annual amortization rate is 10%.

3.7 Goodwill

Goodwill is determined at fair value of identifiable assets, liabilities and contingent liabilities as at the date of acquiring of control or significant influence of subsidiaries, proportionally to acquired interest in their equity. Goodwill is not amortized but is tested for impairment as at the end of each reporting period.

3.8 Property, plant and equipment

Property, plant and equipment are recognized at acquisition price or at cost, less depreciation charges and impairment loss.

All property, plant and equipment as well as their important components are depreciated, excluding land and property, plant and equipment under construction. Depreciation follows the straight line method over the estimated useful life of the assets and starts on the first day of the month following the month of commissioning.

Annual depreciation rates for material assets are presented in the following table:

Asset class	Rate
Ownership right of cooperative residential or commercial space	2.5%
Buildings and structures	1.5% - 10%
Machines and technical devices	10% - 40%
Vehicles	14% - 33%
IT hardware	20% - 40%
Other non-current assets	7% - 20%

Assets held under finance leases are depreciated over the period of their useful life, unless there is no likelihood of purchasing the assets, in which case they are depreciated over a period not longer than the period of the lease.

3.9 Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, assets are reviewed in order to determine if there are any prerequisites indicating potential impairment.

It is considered that there has been impairment of intangible assets and property, plant and equipment, if as a result of technological changes, plans of liquidation, abandonment or other premises indicating decrease in usefulness of a given asset, the value of expected economic benefits related to intangible assets or property, plant and equipment has fallen.

When such premises have been indicated, an impairment test for a given asset is carried out to determine its recoverable amount and if necessary, a revaluation write-down is created to the recoverable amount. If an asset does not generate cash flows which to a large extent are independent of cash flows generated by other assets, the analysis is carried out for the smallest identifiable group of cash-generating assets which the asset belongs to.

3.10 Investment property

Investment property is measured at fair value as at the end of the reporting period. Gains and losses resulting from changes in the fair value of investment property are recognized in profit or loss under "Net change in the fair value of assets and liabilities measured at fair value" in the period when they occurred.

Buildings and structures and land and right of perpetual usufruct of land, partially used for internal purposes and partially leased out are classified as follows:

- part of the facility which as at the balance sheet date is not used for internal purposes is classified as investment property and the remaining part of the facility - as property used for internal purposes;
- the value of property classified as investment property or to property used for internal purposes is determined in accordance with the area;
- if in the case of a property partly used for internal purposes and partly leased, the leased space is not more than 10% of the total space, the entire facility is classified as property used for internal purposes.

The above division of property applies when the parts may be separately sold or leased.

If real property is used for internal purposes, it is classified as investment property and disclosed at fair value. Depreciation charges are applied until the reclassification date, whereas the difference between the carrying amount and the fair value determined as at that date is recognized in other comprehensive income.

3.11 Financial instruments

Financial assets and liabilities are recognized in the statement of the financial position when a PZU Group entity becomes a party to a binding contract under which it incurs risk and receives benefits related to the financial instrument. For transactions concluded in an organized market (exchange) on terms adopted on that market, acquisition or sales of financial assets and liabilities are recognized as at the transaction date.

Financial instruments are classified at the time of acquisition to one of the categories determined in IAS 39 and recognized at fair value adjusted by the transaction costs which may be directly attributed to acquisition or sale of the given financial instrument (except for instruments classified as measured at fair value through profit or loss, whose transaction costs are recognized separately under "Net investment revenue"). At initial recognition, the fair value of the instrument is usually calculated as its transaction price, unless the nature of the instrument indicates otherwise.

In the case of financial instruments generating interest income, the interest is calculated starting from the first day after the date of transaction settlement.

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

Shares whose fair value cannot be reliably estimated are measured at acquisition price including impairment loss.

3.11.1. Financial instruments held to maturity

Financial instruments held to maturity are measured at the amortized cost and the effects of the measurement are recognized under "Net revenue from investments".

3.11.2. Receivables and loans

Receivables and loans include in particular:

- debt securities acquired as part of a contract under which the seller has not lost control over the securities;
- debt securities not quoted on the active market;
- deposits in credit institutions;
- granted loans;
- receivables due to concluded insurance contracts (including reinsurance);
- other receivables.

Loans and receivables, excluding receivables due to concluded insurance contracts and other short-term receivables, are measured as at the end of the reporting period at the amortized cost.

Receivables due to concluded insurance contract and other short-term receivables, due to their nature, are measured at the nominal value including impairment loss on doubtful receivables (the manner of estimating the loss is described in section 4.2.5).

The effects of measurement of receivables and loans up to the value of measurement at the amortized cost are recognized under "Net revenue from investments".

3.11.3. Financial instruments available for sale

Financial instruments available for sale include financial instruments which have not been classified to any other category.

Instruments classified to this category are measured at fair value. The difference between the fair value as at the end of the reporting period and acquisition price is charged directly to the revaluation reserve. In the case of debt securities, interest accrued using the effective interest rate is recognized under "Net revenue from investments". The difference between the fair value and the value at the amortized cost is recognized in the revaluation reserve.

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

Financial instruments measured at fair value through profit or loss include:

- financial instruments held for trading - financial instruments held for trading - assets acquired to be resold in a short term or liabilities incurred to be repurchased in a short term and derivatives;
- financial instruments classified at the time of acquisition as those measured at fair value through profit or loss, provided that the fair value may be reliably estimated. Such financial instruments include:
 - some instruments that pursuant to the Act of 22 May 2003 on insurance activity (Journal of Laws 2013, item 950 with subsequent amendments, henceforth "Act on insurance activity") are aimed at covering technical provisions and investment contracts in life insurance products. Adopted classification of those instruments eliminates or significantly limits mismatch between measurement and recognition of assets and liabilities covered by those assets,
 - financial instruments managed and evaluated based on fair value in accordance to documented risk management principles. The group includes unit-linked investment contracts.

The effects of a change in the measurement of financial instruments measured at fair value and interest revenue recognized are recognized in profit or loss under "Net change in the fair value of assets and liabilities measured to fair value" in the period when they occurred.

3.11.4.1. Derivatives

Derivatives are recognized in the accounting records at fair value as at the transaction date. Subsequently, they are measured at fair value.

The fair value of derivatives quoted on an active market is the closing price as at the end of the reporting period.

The fair value of derivatives which are not quoted on an active market, including forward contracts and interest rate swaps (IRS) is determined using the discounted future cash flows method. Cash flows are discounted using interest rates from the yield curves assigned to a specific type of financial instruments and foreign currencies, constructed based on available market data.

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

Changes in the fair value of derivatives which are not hedging instruments are recognized in profit or loss of the reporting period of revaluation in the "Net change in the fair value of assets and liabilities measured at fair value".

PZU Group companies do not apply hedge accounting.

3.11.5. Financial liabilities other than ones measured at fair value

Trade liabilities - which are short-term - are recognized at the amount due.

Other financial liabilities are measured at amortized cost.

Financial liabilities measured at amortized cost include investment contract with guaranteed and determined terms. Results of their measurement are recognized under "Benefits and change in measurement of investment contracts".

The accounting principles for financial guarantees that meet the definition of an insurance contract and a financial instrument at the same time have been presented in Section 4.5.1.

3.11.6. Impairment of financial assets

As at the end of each reporting period, potential existence of objective evidence for impairment of a financial asset or a group of financial assets is tested.

In the case of any objective evidence for impairment resulting from events following the initial recognition of financial assets and resulting in a decrease in expected future cash flows, appropriate write-downs are created and charged to the current period expenses. Expected impairment losses as a result of future events, irrespective of their probability, are not recognized.

Objective evidence for impairment includes information concerning the following events:

- material financial difficulties of the issuer or debtor;
- breach of the terms and conditions of the contract (such as outstanding interest or principal repayment);
- special facilities given to the debtor resulting from financial difficulties of the debtor which otherwise would not have been given;
- high probability of bankruptcy or other financial reorganization of the debtor;
- disappearance of an active market for a given financial instrument due to financial difficulties of the issuer;
- availability of data indicating measurable decrease in estimated future cash flows related to the group of financial assets since their initial recognition, despite lack of evidence indicating impairment of a single financial asset, including:
 - negative changes concerning the status of the debtors' payments in the group (e.g. an increase in the amount of outstanding payments) or

- unfavorable changes of the economic situation in the industry, region, etc., which lead to deterioration in the debtor's solvency;
- significant and prolonged decrease in the fair value of an investment in an equity instrument below the acquisition cost (additional information presented in section 4.2.4);
- unfavorable changes in the technological, market, economic, legal or other situation affecting the issuer of the equity instruments which indicate that the costs of investment in the equity instrument may not be recovered.

In the case of premises indicating impairment of financial instruments available for sale, losses on measurement, initially recognized under revaluation reserve are charged to profit or loss.

Impairment losses on financial instruments available for sale charged to profit or loss:

- in the case of equity instruments - not reversed;
- in the case of debt instruments they may be reversed, provided that in the subsequent periods the fair value of a given debt instrument increases, and the increase may be objectively associated with the event following recognition of the impairment loss in profit or loss.

In the case of a sale of financial instruments available for sale, the value of revaluation reserve related to the sold financial instruments is derecognized and recognized in profit or loss under "Net profit or loss on realization and impairment loss on financial assets".

The estimates and judgments used for determination of impairment losses have been presented in Section 4.2.

3.12 Recoveries and recourses in non-life insurance

In the case of some classes (types) of non-life insurance, following payment of claims or benefits, the insurer may assume claims against third parties (recoveries) or property rights to the insured property (recourses).

Recoveries are presented in the statement of the financial position under "other assets" and their value estimated at fair value level as at the actual date of the assumption reduces the costs of claims paid in the given period.

Estimated using actuarial methods value of expected future refunds of the company's expenses due to assumption of claims against third parties and assumption of the right to the insured property is recognized under the balance sheet assets in "Estimated recoveries and recourses".

Estimated values of recoveries and recourses, recognized in the accounting records in the given period, reduce the costs of creating provisions for claims outstanding for that period.

3.13 Costs of acquisition and deferred costs of acquisition

Costs of acquisition include expenses related to conclusion and extension of insurance contracts. Direct acquisition costs include among others insurance agent commission costs, payroll costs related to conclusion of insurance contracts, costs of attestation, studies and research regarding risk accepted by the insurer. Indirect acquisition costs include advertisement and promotion of insurance products and costs related to analysis of applications and issuance of policies.

In order to ensure that costs and revenue are matched, acquisition costs are recognized over time.

Deferred acquisition costs capitalized in the statement of financial position, related both to non-life insurance as well as life insurance are tested for impairment by including adequacy of provisions.

3.13.1. Non-life insurance

Acquisition costs in the case of property and personal insurance products are deferred in line with the principles applicable at the time of determining the provision for unearned premiums and amortized under profit or loss (under "Acquisition expense") during the period of the insurance cover.

3.13.2. Life insurance

In the case of life insurance products, for traditional individual insurance contracts with discretionary participation features acquisition costs are recognized over time based on the Zillmer method (life insurance, endowment and birth insurance).

3.14 Cash and cash equivalents

Cash and cash equivalents include, among other things, cash in hand and at bank.

Cash is recognized at face value.

3.15 Assets held for sale

Assets held for sale are measured at the lower of the previous carrying amount or the fair value less costs to sell.

3.16 Equity

3.16.1. Share capital

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

3.16.2. Supplementary capital

Supplementary capital is created and distributed in accordance with the legal regulations in the country of the company's domicile (in Poland, in accordance with the provisions of the Code of Commercial Companies (consolidated text: Journal of Laws of 2013, item 1030)) and the by-laws of the PZU Group companies.

3.16.3. Revaluation reserve

Revaluation reserve includes the effects of:

- measurement of financial assets classified as available for sale;
- measurement of the value of property to their fair value as at the date of their reclassification from property used for internal purposes to investment property.

3.16.4. Actuarial gains and losses related to provisions for employee benefits

This item includes actuarial gains and losses resulting from an increase or a decrease in the present value of defined benefit liabilities due to changes in actuarial assumptions and ex post adjustments thereto. The item includes gains and losses resulting from changes in demographic assumptions (such as mortality, employee turnover ratio) as well as financial assumptions (such as the discount rate or the projected pay growth rates).

3.16.5. Exchange differences from translation

This item includes differences arising from translation of assets and liabilities of foreign subsidiaries into the Polish currency at the average exchange rate determined for the currency by the National Bank of Poland ("NBP") as at the end of the reporting period as well as items of the income statement and other comprehensive income at a rate being the arithmetic mean of the average NBP exchange rates as at the end of each month of the financial year.

3.16.6. Undistributed profit/uncovered loss

Undistributed profit/uncovered loss includes:

- z previous year net profit which has not been distributed by the General Meeting / Shareholders' Meeting;
- current year net profit/loss;

- uncovered net loss.

Net profit distribution (or loss coverage) of the parent and companies of PZU Group takes place only with respect to the net profit (loss) disclosed in the company's separate financial statements prepared according to the local GAAP effective in the country of residence of the given company.

3.16.7. Non-controlling interest

Non-controlling interest represents the part of a subsidiary's capital which may not be attributed to the parent, whether directly or indirectly. Non-controlling interest is measured as the proportional share in identifiable net assets of the subsidiary.

3.17 Classification of insurance products

In accordance with the requirements of IFRS 4, contracts are divided into insurance contracts with significant insurance risk and investment contracts with financial risk, but with no significant insurance risk.

The assumptions made for the purpose of classification of the products offered by the PZU Group have been presented in Section 4.5.

3.17.1. Non-life insurance

All direct property and personal insurance products transfer direct insurance risk as defined in IFRS 4. Reinsurance contracts involve transfer or assumption of either insurance or insurance and financial risk.

In the case of direct property and personal insurance, insurance contracts have no deposit components which could be unbundled from the insurance contract.

Reinsurance treaties, which the PZU Group companies are party to, contain clauses providing for distribution of the reinsurer's profit in line with a plan and at dates specified in the treaty. As a result, part of the premium paid to the reinsurers due to concluded reinsurance treaties may be considered a deposit component.

At the end of the reporting period, all rights and obligations related to the deposit component, in particular a reinsurance asset corresponding to the receivable due to the deposit component resulting from the outward reinsurance treaty, including all terms and conditions of the treaty, such as allocation of loss in particular years, are recognized. Pursuant to the provisions of paragraph 10 of IFRS 4 the deposit component is not unbundled from concluded reinsurance contracts.

Outward reinsurance contracts follow the same accounting principles as reinsurance contracts. As at the end of the reporting period, deposits with ceding undertakings are measured in amount due (specified in line with the terms and conditions of the reinsurance treaty) including impairment loss.

3.17.2. Life insurance

3.17.2.1. Insurance contracts and DPF

Both insurance contracts and investment contracts may contain discretionary participation features (DPF) which enable the insured to receive additional benefit or bonus as a supplement to the guaranteed benefit; the benefit is a significant part of the entire contractual benefit, its amount and duration are specified in the contract and depend on the decision of the insurer; the benefit occurs in the event of:

- a specific set or type of contracts;
- profit or no profit from specific assets;
- profit or loss of the insurer, fund or other entity related to the contract.

All contracts with discretionary profit sharing, unilaterally specified by the insurance company, may be measured in accordance with IFRS 4.

3.17.2.2. Unit-linked products

Contracts concluded with an insurance equity fund on the basis of the criterion of significant insurance risk referred to in clause 4.5, are recognised in accordance with IFRS 4 or IAS 39.

3.17.2.3. Investment contracts with no DPF

The principles of recognition and measurement of contracts which, in accordance with IFRS4, do not meet the classification criteria of an insurance contract, i.e. classified as investment contracts, are specified by IAS 39. Therefore, financial liability measurement principles are applied to investment contracts:

- measurement at amortized cost – for investment contracts with guaranteed and fixed terms or
- measurement at fair value through profit or loss – for unit-linked investment contracts.

The effects of measurement of financial liabilities under investment contracts are presented as "Claims and change in measurement of investment contracts".

3.18 Insurance contracts

3.18.1. Written premium and provision for unearned premiums

3.18.1.1. Non-life insurance

PZU, PZU Latvia and PZU Ukraine are party to insurance contracts in property and personal insurance and may be party to inward and outward reinsurance treaties.

Written premiums are recognized by date of underwriting the policy.

Written premiums are recognized under revenue in proportion to the period of insurance cover. Part of the written premium for the period of insurance cover after the balance sheet date is recognized under provision for unearned premiums. The provision for unearned premiums is determined individually as at the end of each reporting period, accurate to one day.

The provision for unexpired risks complements the provision for unearned premiums and covers future claims and costs relating to insurance contracts which do not expire on the last day of the reporting period. The provision for unexpired risks is calculated for insurance classes as at the end of each reporting period.

The overall provision for unexpired risks is determined for insurance classes with the claims ratio for the current year exceeding 100%, as the difference between the product of the provision for unearned premiums and the claims ratio for the current financial year and the provision for unearned premiums – for the same insurance period. The reinsurers' share in the premium, provision for unearned premiums and provision for unexpired risks is determined in accordance with the terms and conditions of relevant reinsurance treaties.

The provision for unexpired risks is created in line with the minimum requirements of the provision adequacy test specified in point 16 of IRFS 4.

3.18.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the reporting period under insurance contracts concluded, whether the amounts have been paid or not, irrespective of the fact whether the amounts refer to the whole of the next reporting period or its part. The premiums are adjusted by the change in the provision for unearned premiums during the reporting period and reduced by the amount of premium due to the reinsurers. The provision for unearned premiums is created as a part of the written premium related to the future reporting periods proportionally to the period of the premium and is recognized under technical provisions.

3.18.2. Costs of claims and benefits paid and technical provisions

3.18.2.1. Non-life insurance

Costs of the reporting period include all costs of claims and benefits paid under the concluded insurance contracts, including direct and indirect claims handling costs and costs of recourses and a change in provisions for claims outstanding. The costs of claims and benefits are reduced by all received recoveries and recourses as well as by the change in expected recoveries and recourses.

The reinsurers' share in claims and benefits is determined for the classes of insurance with reinsurance, in the amount of reinsurers' share in claims, in line with relevant reinsurance treaties.

The provision for claims outstanding includes:

- provision for outstanding claims and benefits due to losses and accidents which took place and were reported by the end of the reporting period;
- provision for losses and accidents which were incurred by the end of the reporting period and were not reported;
- provision for claims handling costs;
- provision for capitalized value of annuity.

The provision for claims reported but not paid (hereinafter referred to as "RBNP" or "Provision I") is determined using the individual method by the loss adjustment units or, if the available information is insufficient to estimate the provision, in the amount of the average claim determined using the actuarial method. Created provision includes the deductible, expected increase in the prices of goods and repair services and may not exceed the sum insured and the guaranteed sum. The provision is revalued immediately after receiving information which impact its amount by individual assessment or estimated losses and claims.

The provision for claims incurred but not reported (hereinafter referred to as "IBNR" or "Provision II") is created for claims and benefits which have not been reported by the end of the reporting period, when the provision is recognized. IBNR is calculated using the loss triangle: the generalized Chain Ladder method, and if the number of claims or their value is insignificant – using the Bornhuetter-Ferguson method, broken down by the years during which losses were incurred. Basis for calculation are annual triangles for claims paid and claims reported.

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

The provision for indirect loss adjustment expenses is recognized using the actuarial method as the percentage (determined based on the share of indirect loss adjustment expenses in claims paid and direct loss adjustment expenses) of the provision for claims reported but not paid and the provision for claims incurred but not reported and the provision for direct loss adjustment expenses.

Provisions I and II and the provision for claims handling costs are recognized at the nominal value, i.e. they are not discounted.

The provision for capitalized value of annuity claims is calculated individually, as the present value of annuity (for life or periodic), paid in advance.

As at the end of each reporting period, using actuarial methods a provision for capitalized value of annuity claims is created for claims incurred after 31 December 1990 by the balance sheet date and not disclosed as annuity (annuity IBNR).

As at the end of each reporting period, the value of additional provision for liabilities resulting from increased annuity benefits from the so-called old portfolio is determined. Reassessment is carried out only for annuitants with the same provision calculated as at the end of 1997 whose benefit at the end of a given period did not reach a satisfactory amount. The satisfactory amount of claims is determined as a fixed percentage of the current average pay for the years 1960-1990. For the difference between satisfactory and actual claims, the capitalized annuity amount is calculated in line with the current principles.

The reinsurers' share in provisions for claims outstanding is determined as the amount compliant with the terms and conditions of relevant reinsurance treaties.

3.18.2.2. Life insurance

Costs of the reporting period include all costs of claims paid under the concluded insurance contracts, including direct and indirect claims handling costs and a change in provisions for claims outstanding.

Costs of claims and benefits paid

Benefits paid include all payments and charges made in the reporting period due to benefits incurred during the reporting period and earlier (also annuity claims and surrenders), together with all direct and indirect, internal and external benefits handling costs. Handling costs include also the costs of litigation.

The value of benefits is recognized at the actually paid amount, following deduction of refunds (except for refunds due to outward reinsurance), increased by the change in provision for claims outstanding and reduced by the reinsurers' share in claims and provisions.

Life insurance provision

The amount of provisions for life insurance corresponds to the value of liabilities under concluded insurance contracts and is determined as a difference between the current value of expected claims and the current value of expected premiums using the so-called net premium method.

This means that provision calculation includes all claims and premiums provided for in the contracts as contractual liabilities and receivables, irrespective of the fact whether the contract will be maintained by the insured until the end of the period or terminated. The assumptions for the frequency of events under insurance cover, i.e. mortality, incidence proportion and accident rate is determined based on publicly available statistics, such as: in Poland for example Polish Life Expectancy Tables (PLET) or based on own statistics developed on the basis of historical data for individual classes of products found in the portfolio.

The assumptions used in calculation of provisions for life insurance are calculated separately for individual insurance products at the time of determining premium rates and marketing a given product (the so-called lock-in assumptions). During preparation of financial statements the adequacy of assumptions is verified. Provisions for life insurance are determined based on actuarial methods in the following way:

- group employee insurance and individually continued insurance: the provision is based on the prospective actuarial method involving determining of a provision separately for each insurance contract, based on specific statistical data; it corresponds to the present value of the claims expected in relation to insurance protection granted, less the present value of future premiums;
- insurance related to an insurance capital fund: the provision is created in order to cover the current claims relating to insurance protection granted over the value of funds accumulated in the fund for individual insurance types, respectively, in line with general terms: its value corresponds to the portion of fees collected in relation to insurance protection granted corresponding to future reporting periods;
- other - based on the prospective actuarial method, individually for each insurance contract and corresponds to the difference between the expected present value of guaranteed claims and the present value of premiums due under insurance contracts.

Provisions for life insurance are not reduced by deferred acquisition costs.

Provision for life insurance where risk is borne by the policyholders

Provisions life insurance products where risk is borne by the policyholders are created at the amount of the total value of shares in the fund on the accounts of the insured, measured at fair value as at the end of the reporting period.

Provision for outstanding claims and benefits

The provision for claims outstanding is created independently for:

- claims reported but not paid - using the individual method or when the amount of claim cannot be assessed, if the claims are large-scale, using the average claim from the quarter immediately preceding the reporting period;
- claims incurred but not reported - using the lump-sum method, as the percentage of claims paid for the period of the last twelve months.

Provision for unpaid claims and benefits includes a claim handling provision.

Provisions for bonuses and rebates for the insured

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

Other technical provisions

Other technical provisions in life insurance include:

- provision for revaluation of claims under individual life insurance and annuity assumed from Państwowy Zakład Ubezpieczeń ("old portfolio");
- provision for pending court proceedings and claims related to court decisions (based on Article 358.3 of the Civil Code of 23 April 1964 (Journal of Laws No. 16 of 1964, item 93 with subsequent amendments; the Civil Code) concerning the change in the amount and the manner of paying a cash performance;
the above provisions for litigations correspond to the forecasted value of additional benefits resulting from litigations based on the information about the trends in settlements and finished court proceedings.
- provision in case of low interest rates - related to forecasted decrease in profitability of insurance fund investments in the case of individual life insurance, individual increasing term insurance and increasing premium term insurance, Firma group insurance and annuity insurance created with an actuarial method, individually for each insurance contract at the amount corresponding to the difference between:
 - amount of mathematical provisions calculated with relevant formulas and application of modified technical rates including their projected future decrease and
 - amount of mathematical provisions calculated in line with valid regulations regarding provisions with the original technical rate applied for other product pricing.

3.18.3. Provision adequacy tests

As at the end of each year for the life insurance portfolio forecasts are made for contracts in individual classes of products based on previous trends and extrapolation of identified trends for mortality, accident rate, resignation and forecasted costs of claims management and settlement. The test includes comparison of the present value of projected discounted cash flows with the amount of provision recognized at the end of each year. In the case when the provisions are found to be insufficient as compared to the value of discounted cash flows, the assumptions concerning provision creation and automatic adjustment of the amount of technical provisions are modified

3.19 Employee benefits

3.19.1. Defined contribution plans

Social security contributions

PZU Group companies are subject to the provisions of law of the country where the company has its registered office, pay all or some of the costs of contributions which are statutory employee overheads. In Poland they

include some of the contribution to pension and disability insurance and all contribution to accident insurance, labor fund and guaranteed employment benefit fund PZU Group companies are obliged to pay specific contributions and are not obliged, whether legally or constructively, to participate in payment of such future benefits to employees.

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

3.19.2. Defined benefit plans

3.19.2.1. Provision for retirement benefits

Pursuant to the Labor Code of 26 June 1974 (consolidated text: Journal of Laws No. 21 of 1998 item 94 as amended -"the Labor Code"), employees of PZU Group companies with registered offices located in Poland are entitled to retirement benefits in amount of one month salary upon retirement.

The costs of retirement benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

Actuarial gains and losses are recognized in full in the period in which they occurred. Effective from 2013, in accordance with the revised IAS 19, actuarial gains and losses are recognized in other comprehensive income.

3.19.2.2. Provisions for survivor benefits

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

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

3.19.3. Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Journal of Laws 2012, item 592 with subsequent amendments) and internal regulations of the PZU Group companies with their registered offices in Poland which create Company Social Benefit Funds, the benefits and financial services of the fund may be used by pensioners (former employees of the company) and their families. The provision for liabilities arising from future contributions for former employees, as presented in the statement of financial position, is measured at the present value of discounted estimated cash flows.

The costs of post-employment benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

3.19.4. Costs of paid annual leave

The employees of the PZU Group companies are entitled to paid vacation on the terms and conditions specified in legal acts concerning the labor law (in Poland - the Labor Code). In accordance with IAS 19 the cost of employee paid vacation is recognized on an accrual basis, using the liability method. The liability due to employee paid vacation is determined based on the difference between the actual use of the vacation by employees and the balance which would take place if the paid vacation was used in proportion to the lapse of time in the period for which the vacation is due and recognized under "Provisions for employee benefits".

3.20 Revenue recognition

Recognition of revenue due to insurance contracts has been described in section 3.18.1.

Interest

Interest revenue is recognized in accordance with effective interest rate and reported in the income statement in the period it pertains to under "Change in the net fair value of assets and liabilities measured at fair value", "Claims and change in measurement of investment contracts" (for investment contracts) and "Net revenue from investments" (for other assets).

Dividends

Dividends are recognized as revenue when the right to the dividend is acquired; however, in the case of dividend paid from profits generated before acquisition of shares measured at the acquisition cost, the value of due dividend is reduced by the value of share acquisition. Dividend revenue is recognized in "Net revenue from investments".

Revenue from pension fund management services

Revenue from management of PZU Open Pension Fund ("PZU OPF") is recognized in the periods when the services were rendered. The revenue includes in particular:

- fees on premiums transferred by the Social Insurance Institution ("ZUS") to PZU OPF in the amount specified in the by-laws of PZU OPF and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Journal of Laws 2013, item 989 with subsequent amendments; "Pension Funds Act),
- fees specified in the by-laws of PZU OPF for managing PZU OPF, in accordance with the limits specified in the Pension Funds Act,
- other fees determined in the by-laws of PZU OPF.

Revenue from operating activities of PTE PZU is recognized under "Revenue from commissions and fees".

3.21 Taxes

Income tax recognized in the profit or loss includes current and deferred portion.

Current corporate income tax liabilities are calculated in accordance with the tax regulations applicable in the country where the company has its registered office.

The deferred portion recognized in statement of profit and loss is the difference between the balance of deferred tax liabilities and assets as at the beginning and end of the reporting period; deferred tax liabilities and assets for transactions charged to equity are charged to equity.

Deferred tax liabilities and assets are determined using the balance sheet method, considering corporate income tax rates which - according to expectations - will apply at the time when the asset is recovered or provision settled, in line with the tax law provisions applicable in the countries of residence of PZU Group companies, issued by the end of the reporting period.

3.22 Recognition of foreign currency transactions and balances

Transactions executed in currency other than Polish zloty (PLN) are recognized at the average NBP exchange rate established on the day preceding the transaction date. As at the end of the reporting period, monetary items denominated in foreign currencies are translated at the average NBP rate as at that date. Non-monetary items measured at fair value and denominated in foreign currencies are measured at the average NBP exchange rate as at the date when the fair value was determined. Gains and losses on currency translation are charged directly to profit or loss.

4. Key estimates and judgments

Preparation of the consolidated financial statements in accordance with IFRS requires reliance on material estimates and judgments which have an effect on the financial information presented in the consolidated financial statements as regards the value of assets, liabilities, revenue and expenses as well as disclosures.

Although the estimates and judgments used are made to the best of the knowledge of the Management Boards of the PZU Group companies concerning current activities and events, the actual results may differ from those anticipated.

The aforesaid estimates and judgments are reviewed on an ongoing basis, based on past experience and other factors, including expectations as to future events, which, based on the information available as at the date of these consolidated financial statements, appeared to be reasonable.

4.1 Consolidation principles

In order to determine whether the PZU Group controls an investment fund, the criteria laid down in SIC-12 "Consolidation – Special Purpose Entities", issued by the Standing Interpretation Committee are considered, specifically having in fact the right to obtain the majority of benefits from the investment fund, hence exposure to risk related to the business of the aforesaid investment fund.

It is assumed that the PZU Group controls those investment funds where the share of the PZU Group entities in the net assets (exclusive of assets held under unit-linked insurance and investment contracts) exceeds 50%. Such funds are consolidated using the full method – their assets are presented in the statement of financial position as financial assets by type and portfolio classification, while a portion of the net assets of the fund held by third-party investors – as other liabilities under "Liabilities to participants in consolidated investment funds".

4.2 Impairment

4.2.1. Goodwill

Key assumptions made for the purpose of estimating the recoverable amount have been presented in Section 10 (for subsidiaries) and Section 13 (for the associate).

4.2.2. Financial instruments measured at cost

Impairment losses on financial assets measured at cost (equity instruments whose fair value may not be estimated reliably) are determined as the difference between the carrying amount of the assets and the present value of estimated future cash flows discounted using the current market rate of return for similar assets. In the event that the information necessary to estimate future cash flows is not available, the impairment loss may be estimated based on the value of the entity's net assets.

4.2.3. Financial instruments measured at amortized cost

Impairment losses on assets held to maturity and loans are determined as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted using the effective interest rate determined upon initial recognition (original effective interest rate).

4.2.4. Equity instruments quoted on regulated markets as well as units in and investment certificates issued by investment funds

Impairment losses on equity instruments quoted on regulated markets, units in open-end investment funds and certificates issued by closed-end investment funds classified as held for sale are recognized if:

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

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

4.2.5. Receivables from policyholders

Receivables from policyholders are reviewed in order to determine possible occurrence of impairment indicators.

If case-by-case approach was not applied (as a special write-down determined in accordance with the evaluation of the debtor's economic and financial position), impairment is estimated on a collective basis, as a collective assessment of impairment risk for the portfolio of receivables from policyholders based on historical data regarding cash flows on receivables from policyholders.

4.2.5.1. Non-life insurance

In order to determine the amount of a collective write-down on receivables from policyholders, an estimation model is used for collective risk assessment including the total expected financial cash flows:

- with regard to mature receivables, based on historical collectability data and
- with regard to non-mature receivables, based on historical analysis of the share of overdue receivables combined with historical analysis of collectability, as for mature receivables.

4.2.5.2. Life insurance

The following coefficients were assumed to estimate the impairment loss on receivables:

- for receivables from policyholders, ratios resulting from historical analysis of repayment of overdue receivables including specifics of each product based on general insurance terms;
- for disputable receivables, ratios based on historical analysis of payments resulting from court decisions and analysis of cases when the group resigned from collection of overdue receivables.

4.3 Assumptions made in estimation of technical provisions for non-life insurance

The estimated value of claims and benefits paid has been presented in the provision development triangles in section 6.7.1.1. Methodologies used to calculate IBNR provision and for old portfolio provision are described in section 3.18.2.1.

When calculating a provision for capitalized annuity amount, estimated future increase of an average annuity is based on historical data taking into account other information that may result in an increase in the value of annuities in the future (for instance, increased insurance awareness, legislation changes etc.).

Future profitability of the portfolio of investments covering the provision for capitalized annuity amount is calculated as projected profitability of the portfolio of bonds maintained to maturity in line with the prudence principle.

The technical interest rate applied to all annuities was 3.6% both as at 31 December 2013 and 31 December 2012. At the same time, based on the forecast inflation rate and the pay growth rate, a growth rate of 3.9% was used for annuities both as at 31 December 2013 and 31 December 2012.

As regards life annuities, the period during which annuity claims are paid is determined based on the Polish Life Expectancy Tables for 2012 (31 December 2012: PLET for 2011), published by the Central Statistical Office. Additionally, calculation of the provision for capitalized value of annuity claims includes the cost of their future management in the amount of 3% of the value of paid claims.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions used for calculation of the provision for capitalized value of annuity claims is presented in section 6.7.1.1.

4.4 Assumptions made in estimation of technical provisions for life insurance products

Technical rates in life insurance

The technical interest rate used for calculation of life insurance provisions was 3.0% both as at 31 December 2013 and 31 December 2012.

An analysis of sensitivity of the net profit/loss as well as equity to changes in the technical interest rate used for determining the value of technical provisions for life insurance is presented in section 6.7.1.2.

Incidences of events covered by insurance

Key assumptions made when estimating technical provisions for life insurance products, referring among others to assumed frequency of events under insurance coverage are described in section 3.18.2.2.

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

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

An analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions made for determining the value of technical provisions for life insurance is presented in section 6.7.1.2.

Provision for revaluation of old portfolio claims and for pending litigation in PZU Życie

In 1992, PZU transferred individual insurance policies (endowment and life) and annuity contracts (the so called “old portfolio”) to PZU Życie.

In the hyperinflationary period of the 1980s, investment activities of Państwowy Zakład Ubezpieczeń were limited, as a result of which investment income was below the inflation level. In effect, provisions created in relation to the old portfolio were not sufficient to cover claims adjusted for inflation. PZU Życie revalued partly the old portfolio policies. Claim revaluation programs were implemented for all claims paid on an ongoing basis. Some insured, whose benefits lost their real value, sued PZU Życie in order to obtain higher benefits.

PZU Życie creates a provision for revaluation of claims under individual insurance policies and annuity contracts taken over from PZU (i.e. the so called “old portfolio”), which may result from future disputes (court cases and settlements).

The value of the above provision has been determined based on the expected value of additional future claims resulting from court cases and settlements. The value of such claims has been determined by extrapolating the historical trends related to claims, estimated on the basis of the number of concluded court cases and settlements as well as the awarded amounts. If litigation and non-litigation trends or the old portfolio revaluation program changed substantially in the future, this could have a material impact on the level of provisions required to cover the old portfolio liabilities.

The amount of provisions recognized for the old portfolio has been presented in Section 26.2.

Provision adequacy tests

Provision adequacy testing principles in life insurance products are described in section 3.18.3.

4.5 Classification of insurance contracts in accordance with IFRS 4

PZU Group companies that carry out insurance activity apply guidance included in IFRS 4 regarding classification of their products as insurance contracts subject to IFRS 4 or investment contracts. A contract can be classified as an insurance contract only when the insurance covered event may necessitate for the insurer to pay additional

claims in any scenario except from those lacking economic contents (i.e. which do not visibly impact the economics of transactions), i.e., when the contract involves transfer of a significant insurance risk.

Assessment whether a contract does transfer significant actuarial risk requires analysis of cash flows related to a product under various scenarios and estimation of probability of their occurrence. The assessment is based on a judgment, which significantly impacts accounting principles applied.

Based on the assumptions adopted by the PZU Group, significant insurance risk occurs when an insured event results in payment of claims at least 10% higher than claims paid if the event had not occurred. Based on the aforementioned criterion, contracts concluded are recognized either in accordance with IFRS 4 or IAS 39.

4.5.1. Contract classification in non-life insurance

Analysis carried out proves that all property and personal insurance contract transfer significant insurance risk and therefore are governed by regulations of IFRS 4 as opposed to IAS 39.

Additionally, in light of work on the second stage of IFRS 4 carried out by IASB, the Group continues application of insurance contract accounting to financial guarantees that meet the definition of a financial instrument in accordance with amended IAS 39 and IFRS 4 effective from 1 January 2006.

4.5.2. Classification of life insurance contracts

Based on an analysis, it was concluded that products that do not transfer significant insurance risk (they include certain products with guaranteed return rate and some unit-linked ones) and thus do not meet the definition of an insurance contract pursuant to IFRS 4. Therefore, these products have been classified as investment contracts measured in accordance with IAS 39 for the purpose of these consolidated financial statements, which means that – depending on the product construction and classification – at depreciated cost or fair value.

Additionally, no life insurance contracts were identified which would provide for the transfer of both insurance and financial risk and require unbundling of insurance and investment activities. In the case of contracts for which unbundling of embedded options (e.g. the right to surrender a contract, change it into a premium-free contract, guaranteed annuity for a set premium, indexation of the sum insured and premiums) is permitted, but not required, the investment component is not unbundled.

4.6 Classification of property used for internal purposes and treated as investment property

Real property used for internal purposes is measured at historical cost according to IAS 16, while investment property is measured at fair value according to IAS 40 with the changes in fair value charged to statement of profit and loss.

In case of real property used both for internal purposes and for investment, separation is carried out according to principles described in 3.10, when both parts of such property can be sold separately or leased.

4.7 Unrecognized deferred tax assets

PZU Group due to prudent principle does not recognize deferred tax assets resulting from tax losses of PZU Group companies, in part which utilization of such assets could not be performed.

The amount of unrecognized deferred tax assets due to tax losses incurred by PZU Group companies is presented in section 19.

4.8 Calculation of provisions for employee benefits

Provisions for retirement and death benefits (as described in Section 28) are estimated using actuarial methods with the application of appropriate actuarial techniques and assumptions.

Actuarial assumptions

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

Key actuarial assumptions made for calculation of provisions for retirement benefits	31 December 2013	31 December 2012
Discount rates, including:		
- PZU and PZU Życie	in accordance with the bond yield curve ¹⁾	3.7%
- other PZU Group companies	2.0%-4.5%	1.0%-5.0%
Anticipated pay growth rates, including:		
- PZU and PZU Życie	3.0%	3.0%
- other PZU Group companies	1.5%-3.0%	3.0%
Mortality rate, including:		
- PZU and PZU Życie	PLET ²⁾	PLET ²⁾
- other PZU Group companies	PLET ²⁾	PLET ²⁾
Employee turnover ratio, including:		
- PZU and PZU Życie	applicable to the company ³⁾	applicable to the company ³⁾
- other PZU Group companies	0.0%-10.0%	0.0%-13.0%
Disability rate (entitlement to disability benefits), including:		
- PZU and PZU Życie	0.2%	0.2%
- other PZU Group companies	30%-60% PLET ⁴⁾	30%-60% PLET ⁴⁾

¹⁾ The yield curve for zero-coupon Treasury bonds used for discounting the provisions for employee benefits at PZU and PZU Życie as at 31 December 2013 covers the period from 2014 to 2044, assuming increasing values for the range until 2031 (2.68%-4.87%) and subsequently becoming an inverted yield curve decreasing to the level of 4.61%.

²⁾ The mortality rate adopted at the level specified in the Polish Life Expectancy Tables (PLET) (for both men and women), published by the Central Statistical Office (GUS).

³⁾ The employee turnover ratio has been calculated based on ongoing observation of employee turnover. The ratio differs depending on the employee's age, length of service and pay. Some PZU Group companies do not take the aforementioned ratio into account.

⁴⁾ The disability rate represents a relevant percentage of the above mortality ratio. Some PZU Group companies do not take the aforementioned rate into account.

Sensitivity analysis

Effect of changes in actuarial assumptions for retirement and death benefits on the related provisions	Retirement benefits	Death benefits
Discount rates		
- increase by 1 p.p.	(1 505)	(1 953)
- decrease by 1 p.p.	1 863	2 328
Anticipated pay growth rates:		
- increase by 1 p.p.	(614)	(1 061)
- decrease by 1 p.p.	965	1 430
Mortality rate:		
- increase by 10%	(164)	1 707
- decrease by 10%	167	(1 736)
Employee turnover ratio:		
- increase by 10%	(214)	(457)
- decrease by 10%	224	479

4.9 Estimated provisions for disputes

Provisions for disputes are estimated using the individual method, in accordance with IAS 37, taking into account the probability of an outflow of cash to settle the obligation. Outflow of cash is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not.

4.10 Presentation of transactions with entities related to the State Treasury

In spite of the provisions of the By-laws of PZU (in particular those concerning the limitations of the voting rights of the shareholders other than the State Treasury and the rules of appointing Supervisory Board of PZU), for the purposes of presentation of related party transactions, it is assumed that the State Treasury has retained control over PZU, as understood by IAS 27, and thus PZU remains an entity controlled by the State Treasury.

Non-life insurance contracts, life insurance contracts and investment contracts constituted the major part of transactions with subsidiaries, co-subsidiaries and associates of the State Treasury.

The PZU Group enjoys the exemption from the obligation to disclose related-party transactions due to the fact of being under control, joint control or significant influence of the same government, as referred to in Par. 25 of IAS 24. However, as such information is useful, the PZU Group decided to disclose the value of premium written as well as the volumes of investment contracts resulting from transactions with subsidiaries, co-subsidiaries and associates of the State Treasury (Section 53.2).

5. Segment reporting

5.1 Reportable segments

5.1.1. Key division criterion

IFRS 8 sets out requirements for disclosure of information about an entity's operating segments in their annual and interim financial statements. Operating segments are components of the entity for which separate financial information is available and that are regularly reviewed by the entity's chief operating decision maker ("CODM", i.e. the Management Board of PZU) in order to allocate resources to the segment and assess its performance.

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

PZU segments:

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

PZU Życie segments:

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

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

- Pension insurance;
- Ukraine (non-life and life insurance; in 2012 only non-life insurance);
- Baltics - Lithuania, Latvia, Estonia - (non-life and life insurance; in 2012 only non-life insurance).

Operating segments may be aggregated into a single reportable segment if the qualitative and quantitative criteria described in IFRS 8.12-19 are met. In these financial statements separate operating segments have not been aggregated into reportable segments with the exception of the "Investments" segment which comprises investment activities using the PZU Group companies' own funds.

5.1.2. Geographical areas

The PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltics;
- Ukraine.

5.2 Settlements among segments

The investment performance (the difference between realised and unrealised revenue and expenses) disclosed under corporate insurance (non-life insurance), retail client insurance (non-life insurance), group insurance and individually continued insurance (life insurance) is determined in accordance with the transfer pricing based on the interest rate of the curves of the treasury securities profitability (risk-free rate), taking into account that for unit-linked insurance products with a guaranteed rate and for structured products, the net profit or loss on investments constituting coverage of the corresponding technical provisions is disclosed.

5.3 Measure of profit of a segment

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

- In insurance companies – a profit or loss on insurance in accordance with the accounting policies of the country of residence of the company, constituting the profit or loss before tax and other operating revenue and expenses (including borrowing costs), however taking into account the income on investments (corresponding to the value of technical provisions) determined by the risk free rate. A profit or loss on insurance is a similar measure to the technical result on insurance defined in Polish Accounting Standards, however it includes the net profit or loss on investments described in the previous sentence for non-life and life insurance;
- In non-insurance companies – an operating profit or loss in accordance with the accounting policies of the country of residence of the company or IFRS, constituting a profit or loss before tax and borrowing costs.

5.4 Segments characteristics

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

- Corporate insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of property insurance products, third party and motor insurance products customised to meet clients' expectations and with individual risk assessment, offered by PZU to big enterprises;
- Retail client insurance (non-life insurance) – reporting in accordance with Polish Accounting Standards – a wide range of property insurance products, accident insurance products, third party and motor insurance products offered by PZU to retail clients and entities in the SMB sector;
- Group and individually continued insurance (life insurance) - reporting in accordance with Polish Accounting Standards – group insurance offered by PZU Życie to groups of employees and other formal groups (e.g. trade unions), intended for individuals who are in a legal relation with the insurer (e.g. employer, trade union) and individually continued insurance where the insurer has obtained the right to continue insurance individually under group insurance. The offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Individual insurance (life insurance) - reporting in accordance with Polish Accounting Standards – insurance offered by PZU Życie to individual clients whereby an insurance contract covers a given individual who is subject to separate risk assessment; the offer of PZU Życie comprises a wide range of group insurance coverage, investment insurance (other than investment contracts) and health insurance;
- Investments - reporting in accordance with Polish Accounting Standards – comprising investment activities in respect of the PZU Group's own funds constituting a surplus of investments over technical provisions in the

key insurance companies of the PZU Group (PZU and PZU Życie) increased by surplus of investment income over the risk-free rate corresponding to the value of technical provisions of PZU and PZU Życie in non-investment products. Additionally, the "Investments" segment includes income earned on other excess cash in the PZU Group;

- Pension insurance - reporting in accordance with Polish Accounting Standards – comprising the company PZU PTE;
- Ukraine (non-life and life insurance; in 2012: non-life insurance only) – reporting in accordance with Ukrainian standards – including PZU Ukraine and PZU Ukraine Life, in 2012: PZU Ukraine only;
- Baltic States (non-life and life insurance; in 2012: non-life insurance only) – reporting in accordance with Lithuanian standards – including PZU Lietuva, operating in Lithuania, and also in Latvia and Estonia via its branches, and UAB PZU Lietuva Gyvybes Draudimas; in 2012: PZU Lietuva only;
- Investment contracts - reporting in accordance with Polish Accounting Standards – comprising products of PZU Życie which do not result in a transfer of significant insurance risk in accordance with IFRS 4 and are not insurance contracts (i.e. some of the products with a guaranteed rate of return and some unit-linked products). In accordance with IFRS and as required by IAS 39, these products are accounted for using the deposit method and measured depending on the structure of a product – at amortised cost or fair value. Written premium on these products is not recognised in accordance with IFRS. In accordance with Polish Accounting Standards, all of the aforesaid products are disclosed as insurance products and written premium is recognized;
- Other – reporting in accordance with IFRS or PAS (presentation of a profit or loss of a segment under "other" is not required under IFRS 8) – comprises other consolidated entities which do not belong to any of the aforesaid segments and whose revenue is earned mainly from the manufacture of fittings, heaters, casting and services.

5.5 Polish Accounting Standards applied

5.5.1. PZU

Polish Accounting Standards and the differences between PAS and IFRS in respect of financial reporting of PZU were presented in detail in the annual separate financial statements of Powszechny Zakład Ubezpieczeń Spółka 2013, in accordance with PAS, approved by Management Board on 11 March 2014, on which the certified auditor issued an unqualified opinion on the same date ("Separate financial statements of PZU for 2013").

The separate financial statements of PZU for 2013 are available on the PZU website www.pzu.pl, under "Investor Relations" section.

5.5.2. PZU Życie

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

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU Życie have been presented in section 3, 4.4 and 4.6, in parts describing life insurance.

The key differences between PAS and IFRS as regards accounting for insurance contracts and investment contracts of PZU Życie comprise:

- classification of insurance contracts in accordance with instructions included in IFRS 4 regarding classification of products as insurance contracts under IFRS 4 or investment contracts valued in accordance with IAS 39. In accordance with IFRS 4, a contract is an insurance contract only when it could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios lacking commercial substance (i.e. having have no discernible effect on the economics of the transaction), therefore when significant insurance risk is transferred under the contract. Determination whether significant financial risk is transferred under a given contract requires an analysis of the cash flows associated with a given product in different scenarios and estimation of the likelihood of its occurrence;
- only with respect to the figures for 2012 - the technical interest rate used for determination of technical provisions. In accordance with IFRS 4, if the insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence in subsequent reporting periods. In accordance with Polish Accounting Standards, technical interest rates are decreased for some types of insurance due to maximum technical interest rates being announced by the Polish Financial Supervision Authority, which results in an increase in technical interest rates under PAS as compared with the same provisions under IFRS.

The impact of the aforesaid differences between PAS and IFRS has been presented in a segment reporting note in separate columns.

5.6 Structure of the segment reporting note and reconciliations

Since the revenue measures of individual segments are based on local accounting standards applicable in the country of residence of the PZU Group's registered office, the financial data of the reporting segments is disclosed under a few different accounting standards. In addition, due to the differences in the formats of management reports submitted to the chief operating decision maker compared with the format of the financial statements prepared under IFRS, two separate reporting formats had to be used: the format of the management reports submitted to the chief operating decision maker (left-hand side of the note) and the format of the financial statements prepared under IFRS (right-hand side of the note).

As a consequence, reconciliation of the totals of revenue and profit or loss of the reportable segments with their consolidated counterparts as required by IFRS 8.28 included in the note is complex and comprises the following stages described in the segment note in the same order as the order of the reconciliation columns:

- Transition from the format of the management reports submitted to the chief operating decision maker to the format of the financial statements prepared under IFRS (the "Differences in presentation " column), resulting in a number of changes in the presentation, including reclassification of other operating revenue and expenses to items presented under "operating profit/(loss)" in accordance with IFRS;
- Reconciliation of differences between the accounting standards used for the presentation of financial data of the segments and IFRS, and separate presentation of the key accounting standards;
- Making consolidation adjustments (since it is the last phase of reconciliation – the adjustments have been presented in the format required under IFRS).

5.7 Simplifications in the segment note

Some simplifications in the segment note have been made, as compared with the requirements of IFRS 8. Justification of the simplifications:

- Withdrawal from presentation of information about allocation of all assets and liabilities to individual segments – resulting from failure to prepare and present such information to the entity's chief operating decision maker. The key information submitted to the entity's chief operating decision maker is the profit or loss of given segments, on which basis management decisions, including decisions about allocation of resources are made. Analysis of assets and liabilities allocated to the segments is limited to the monitoring of compliance with the regulatory requirement under PAS, i.e. having assets covering technical provisions exceed the sum of those provisions (analysis by individual insurance companies instead of product groups);
- Presentation of the net profit or loss on an investment with a single amount expressed as a difference between realised and unrealised revenue and expensed from investments – resulting from an internal assessment of the profit or loss of the segments on the basis of the total measure of the profit or loss on investments;
- Revenue and expenses other than realised and unrealised investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- Presentation of other operating revenue and expenses and financial expenses of the companies PZU and PZU Życie for their operating segments combined (and as a result, not allocating any amounts in this respect to the "investment contracts" segment) – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation;
- Presentation of income tax charges expressed as a single sum of consolidated data – resulting from the measures of profit of the operating segments adopted and from impracticality of such allocation.

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2013

(in PLN '000)

Income statement for the period 1 January 2013 - 31 December 2013	Corporate insurance (non-life insurance)	Retail insurance (non-life insurance)	Group and individually continued insurance (life insurance)	Individual insurance (life insurance)	Investment	Pension insurance	Ukraine	Baltics	Investment contracts	Other activities	Presentation differences	Real property and investments	Investment contracts	Prevention fund, equalization reserve and designation to Social Benefit Fund	Consolidation adjustments	Consolidated value	Income statement for the period 1 January 2013 - 31 December 2013
	PAS	PAS	PAS	PAS	PAS	PAS	IFRS	IFRS	PAS	PAS	PAS	PAS - IFRS	PAS - IFRS	PAS - IFRS	IFRS	IFRS	
Gross written premium - external	1 735 259	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	-	16 480 003	Gross written premium - external
Gross written premium - cross-segment	4 898	-	-	-	-	-	-	-	-	-	-	-	-	-	(4 898)	-	Gross written premium - cross-segment
Gross written premium	1 740 157	6 533 743	6 415 178	1 329 894	-	-	203 640	262 289	1 097 951	-	-	-	(1 097 951)	-	(4 898)	16 480 003	
Reinsurers' share in written premium	(160 273)	(43 756)	(2 848)	(58)	-	-	(31 253)	(20 795)	-	-	-	-	-	-	1 946	(257 037)	Reinsurers' share in gross written premium
Net written premium	1 579 884	6 489 987	6 412 330	1 329 836	-	-	172 387	241 494	1 097 951	-	-	-	(1 097 951)	-	(2 952)	16 222 966	Net written premium, including:
Change in provisions for unearned premiums and unexpired risks	(35 703)	64 717	1 739	946	-	-	(9 036)	(17 606)	606	-	19 631	-	(606)	-	1 115	25 803	Change in net provision for unearned premium
Change in net provision for unearned premium	(11 571)	(2 419)	-	-	-	-	7 221	3 258	-	-	(19 631)	-	-	-	-	-	
Net earned premium	1 555 752	6 552 285	6 414 069	1 330 782	-	-	170 572	227 146	1 098 557	-	-	-	(1 098 557)	-	(1 837)	16 248 769	Net earned premium
Investment income, including: <i>Net investment income (external transactions)</i> <i>Net investment income (cross-segment transactions)</i>	140 039 140 039 -	556 759 556 759 -	735 242 735 242 -	304 969 304 969 -	4 858 981 896 559 3 962 422	11 580 11 580 -	24 373 24 373 -	6 511 6 511 -	89 115 89 115 -	65 018 65 018 -	(6 792 587) (2 830 165) (3 962 422)	- -	34 271 -	- -	(54 591) -	319 962	Revenue from commissions and fees
											1 835 955	-	-	-	8 977	1 844 932	<i>Net investment income (external transactions)</i>
											3 962 422	-	-	-	(3 962 422)	-	<i>Net investment income (cross-segment transactions)</i>
											99 493	24 782	-	-	(99 230)	25 045	Net profit or loss on realization and impairment loss on investments
											781 576	(105 879)	-	-	(57 606)	618 091	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance Revenue from non-insurance entities Other operating revenue (without insurance entities)	11 522 - -	34 872 - -	1 524 - -	18 765 - -	- - -	- 218 300 3 090	- - -	- - -	15 463 - -	- 400 948 6 002	(82 146) (619 248) 634 404	- -	(15 462)	-	(120 736)	491 109	Other operating revenue
Gross claims paid Change in provision for claims outstanding (gross)	(890 923) (1 959)	(3 410 960) (761 742)	(4 290 148) (9 526)	(609 567) (17 034)	- -	- -	(83 190) (5 417)	(147 070) (359)	(1 334 969) 5 221	- -	(1 609 046) 790 816	- -	1 157 463	6 323	16 810	(11 195 277)	Claims, benefits and change in technical provisions
Reinsurers' share in claims paid Reinsurers' share in change in provisions for claims outstanding	112 577 (73 805)	154 450 (174 716)	164 -	- -	- -	- -	2 516 5 199	10 829 (2 487)	- -	- -	(242 600) 245 809	- -	- -	-	(3 883)	34 053	Reinsurers' share in claims, benefits and change in technical provisions
Claims net of reinsurance	(854 110)	(4 192 968)	(4 299 510)	(626 601)	-	-	(80 892)	(139 087)	(1 329 748)	-	(815 021)	-	1 157 463	6 323	12 927	(11 161 224)	Net insurance claims and benefits
Change in other technical provisions net of reinsurance, provision for unit-linked insurance, equalization provisions	(5 887)	(436)	(270 964)	(712 390)	-	-	-	-	172 272	-	817 405	-	-	-	-	(77 715)	Benefits and change in measurement of investment contracts
provisions for bonuses and rebates for the insured, including change in provisions	(298)	-	(523)	-	-	-	-	-	(4)	-	825	-	-	(77 715)	-	(77 715)	
Other technical charges, net of reinsurance	(47 428)	(261 850)	(108 433)	(12 924)	-	-	-	-	(4 683)	-	435 318	-	-	-	-	-	
Acquisition expenses	(300 302)	(1 141 493)	(322 765)	(109 519)	-	(16 776)	(62 446)	(67 137)	(18 318)	-	-	-	-	(126)	22 944	(2 015 938)	Acquisition expenses
Administrative expenses	(115 829)	(546 865)	(545 720)	(53 225)	-	(77 923)	(35 904)	(26 490)	(11 377)	-	-	1 131	-	(20 568)	26 290	(1 406 480)	Administrative expenses
Reinsurers' commissions and share in reinsurers' profit	8 022	66 967	501	-	-	-	-	-	-	-	(75 490)	-	-	-	-	-	
Non-insurance entities expenses	-	-	-	-	-	-	-	-	-	(369 897)	369 897	-	-	-	-	-	
Other operating expenses (without insurance entities)	-	-	-	-	-	(839)	-	-	-	(6 519)	(874 683)	(8 946)	-	84 583	100 805	(705 599)	Other operating expenses
Insurance result / Operating profit (loss)	391 481	1 067 271	1 603 421	139 857	4 858 981	137 432	15 703	943	11 277	95 552	18 402	(105 101)	-	70 212	(4 124 479)	4 180 952	Operating profit (loss)
Other operating revenue	65 131	-	14 763	-	-	-	796	3 613	-	-	(84 303)	-	-	-	-	-	
Other operating expenses	(58 067)	-	(50 159)	-	-	-	(874)	(4 075)	-	-	113 175	-	-	-	-	-	
Financial expense	-	-	-	-	-	-	-	-	(57 112)	-	(47 270)	-	-	-	-	-	
															42 718	(61 664)	Financial expense
															1 404	-	Share in net profit (loss) of entities measured using the equity method
															4 120 692	-	Gross profit (loss)
															(825 579)	-	Income tax
															3 295 113	-	Net profit (loss)

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2013

(in PLN '000)

Income statement for 1 January – 31 December 2012	Corporate insurance (non-life insurance)	Retail insurance (non-life insurance)	Group and individual continuation insurance (life insurance)	Individual insurance (life insurance)	Investment	Pension insurance	Ukraine (property and personal insurance)	Lithuania (property and personal insurance)	Investment contracts	Other activities	Presentation differences	Real property and investments	Investment contracts	Technical rate in life insurance	Prevention fund, equalization reserve and designation to Social Benefit Fund	Consolidation adjustments	Consolidated value	Income statement for 1 January – 31 December 2012
	PL GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP	UA GAAP	LT GAAP	PL GAAP	PL GAAP	PL GAAP	PL GAAP - IFRS	PL GAAP - IFRS	PL GAAP - IFRS	PL GAAP - IFRS	IFRS	IFRS	
Gross written premium - external	1 837 619	6 613 586	6 364 007	1 089 970	-	-	142 228	195 721	1 859 439	-	-	-	(1 859 439)	-	-	-	16 243 131	Gross written premium - external
Gross written premium - cross-segment	2 293	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2 293)	-	Gross written premium - cross-segment
Gross written premium	1 839 912	6 613 586	6 364 007	1 089 970	-	-	142 228	195 721	1 859 439	-	-	-	(1 859 439)	-	-	(2 293)	16 243 131	
Reinsurer's share in written premium	(151 837)	(46 759)	(2 664)	(86)	-	-	(25 789)	(12 083)	-	-	-	-	-	-	-	1 942	(237 276)	Reinsurer's share in gross written premium
Net written premium	1 688 075	6 566 827	6 361 343	1 089 884	-	-	116 439	183 638	1 859 439	-	-	-	(1 859 439)	-	-	(351)	16 005 855	Net written premium, including:
Change in provisions for unearned premiums and unexpired risks	57 288	(59 721)	842	2 042	-	-	(13 142)	(11 103)	(705)	-	23 678	-	705	-	-	(499)	(615)	Change in net provision for unearned premium
Change in net provision for unearned premium	19 096	5 571	-	-	-	-	(287)	(702)	-	-	(23 678)	-	-	-	-	-	-	
Net earned premium	1 764 459	6 512 677	6 362 185	1 091 926	-	-	103 010	171 833	1 858 734	-	-	-	(1 858 734)	-	-	(850)	16 005 240	Net earned premium
Net investment income, including:	127 357	537 003	955 194	346 956	2 760 743	13 273	17 741	9 890	191 383	1 550	(4 961 090)	-	-	-	-	-	237 102	Revenue from commissions and fees
Net investment income (external transactions)	127 357	537 003	955 194	346 956	1 525 225	13 273	17 741	9 890	191 383	1 550	(3 725 572)	-	-	-	-	-	-	Net investment income (external transactions)
Net investment income (cross-segment transactions)	-	-	-	-	1 235 518	-	-	-	-	-	(1 235 518)	-	-	-	-	-	-	Net investment income (cross-segment transactions)
Other technical revenue net of reinsurance	16 054	78 071	3 434	12 426	-	-	-	-	15 937	-	(125 922)	-	-	-	-	6 224	2 047 054	Net profit or loss on realization and impairment loss on investments
Revenue from non-insurance entities	-	-	-	-	-	199 165	-	-	-	386 018	(585 183)	-	-	-	-	(1 235 518)	-	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other operating revenue (without insurance entities)	-	-	-	-	-	1 053	-	-	-	11 308	720 476	6 456	(15 937)	-	-	(135 328)	588 028	Other operating revenue
Gross claims paid	(952 143)	(3 575 950)	(4 230 510)	(614 035)	-	-	(55 163)	(108 293)	(3 186 844)	-	(1 257 170)	-	2 013 514	(401 872)	(5 040)	2 208	(12 371 298)	Claims, benefits and change in technical provisions
Change in provision for claims outstanding (gross)	(323 033)	(762 847)	86 511	9 255	-	-	(322)	(3 662)	1 813	-	992 285	-	-	-	-	-	-	Reinsurers' share in claims, benefits and change in technical provisions
Reinsurers' share in claims paid	66 058	57 480	121	-	-	-	2 453	3 540	-	-	23 919	-	-	-	-	(1 004)	152 567	
Reinsurers' share in change in provisions for claims outstanding	35 085	(17 661)	-	-	-	-	(842)	(3 238)	-	-	(13 344)	-	-	-	-	-	-	
Claims net of reinsurance	(1 174 033)	(4 298 978)	(4 143 878)	(604 780)	-	-	(53 874)	(111 653)	(3 185 031)	-	(254 310)	-	2 013 514	(401 872)	(5 040)	1 204	(12 218 731)	Net insurance claims and benefits
Change in other technical provisions net of reinsurance, provision for unit-linked insurance, equalization provisions	1 826	3 214	(848 700)	(594 055)	-	-	-	-	1 171 526	-	266 189	-	-	-	-	-	(176 780)	Benefits and change in measurement of investment contracts
provisions for bonuses and rebates for the insured, including change in provisions	2 550	97	(1 337)	-	-	-	-	-	(9)	-	(1 301)	-	-	-	-	-	-	
Other technical charges, net of reinsurance	(71 062)	(311 064)	(59 089)	(3 752)	-	-	-	-	(4 277)	-	449 244	-	-	-	-	-	-	
Acquisition expenses	(336 218)	(1 136 834)	(317 716)	(90 824)	-	(20 212)	(27 998)	(49 047)	(31 215)	-	-	10	-	-	-	9 703	(2 000 351)	Acquisition expenses
Administrative expenses	(107 687)	(568 609)	(578 417)	(53 383)	-	(92 967)	(28 450)	(18 861)	(15 978)	-	-	5 730	-	-	(20 000)	38 321	(1 440 301)	Administrative expenses
Reinsurers' commissions and share in reinsurers' profit	(5 715)	(15 929)	1 399	-	-	-	-	-	-	-	20 245	-	-	-	-	-	-	
Non-insurance entities expenses	-	-	-	-	-	-	-	-	(357 038)	-	357 038	-	-	-	-	-	-	
Other operating expenses (without insurance entities)	-	-	-	-	-	(1 863)	-	-	(7 367)	-	(701 104)	(3 977)	-	-	11 699	83 874	(618 738)	Other operating expenses
Insurance result / Operating profit (loss)	217 531	799 648	1 373 075	104 514	2 760 743	98 449	10 429	2 162	1 070	34 471	140 575	48 374	-	(401 872)	(13 341)	(1 095 630)	4 080 198	Operating profit (loss)
Other operating revenue	215 391	-	71 904	-	-	-	2 664	-	2 536	-	(292 495)	-	-	-	-	-	-	
Other operating expenses	(121 226)	-	(61 212)	-	-	-	(2 523)	(3 419)	-	-	188 380	-	-	-	-	-	-	
Financial expense	-	-	-	-	-	-	-	-	-	(5 030)	(36 460)	-	-	-	-	-	(41 490)	Financial expense
																	4 038 708	Gross profit (loss)
																	(784 882)	Income tax
																	3 253 826	Net profit (loss)



(in PLN '000)

2013	Poland	Baltics	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premium - external	16 014 074	262 289	203 640	-	16 480 003
Gross written premium - cross-segment	2 439	-	-	(2 439)	-
Revenue from commissions and fees	319 962	-	-	-	319 962
Net investment income (external transactions)	1 810 078	7 783	24 026	3 045	1 844 932
Net profit or loss on realization and impairment loss on investments (external transactions)	35 196	(1 905)	382	(8 628)	25 045
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	596 377	633	(20)	21 101	618 091
Non-current assets other than financial instruments ¹⁾	1 216 845	14 125	5 822	(785)	1 236 007
Deferred tax assets	15 351	-	1 598	-	16 949
Assets	62 087 723	415 708	259 963	(400 973)	62 362 421

¹⁾ Intangible assets and property, plant and equipment

2012	Poland	Baltics	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	15 905 182	195 721	142 228	-	16 243 131
Gross written premiums - cross-segment	827	-	-	(827)	-
Revenue from commissions and fees	237 102	-	-	-	237 102
Net investment income (external transactions)	2 024 286	6 168	14 091	2 509	2 047 054
Net profit or loss on realization and impairment loss on investments (external transactions)	524 150	927	(370)	(3 439)	521 268
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	1 129 777	2 795	-	3 835	1 136 407
Non-current assets other than financial instruments ¹⁾	1 159 760	10 625	6 717	(1 547)	1 175 555
Deferred tax assets	12 753	-	1 210	-	13 963
Assets	55 025 653	284 912	158 151	440 844	55 909 560

¹⁾ Intangible assets and property, plant and equipment

6. Risk management

6.1 Introduction

The purpose of risk management is to ensure that in realizing its business objectives, the PZU Group monitors and manages its investment and insurance portfolios and operating risks safely and handles the risk exposure adequately. The risk management strategy is an integral part of the management process in PZU and PZU Życie. The key elements of the risk management strategy:

- the system of limits and restrictions to acceptable risk level, including risk appetite, determined by the Management and Supervisory Board of PZU and PZU Życie and adequate Committees
- identification, measurement, evaluation, monitoring and reporting processes and management measures regarding each type of risk;
- risk management organizational structure, in which Supervisory and Management Boards of PZU and PZU Życie, as well as the Committee for Assets, Equity and Liabilities Management and the Credit Risk Committee (the "Committees") play the key role.

6.2 Description of the risk management system

The risk management system of the PZU Group is based on three components:

- organizational structure – including definition of the roles and responsibilities of individual entities and organizational units in the risk management process;
- operating with the use of risk hedging and transfer techniques with a view to adjusting the risk profile and risk appetite to strategic plans;
- risk identification, measurement, assessment, monitoring and reporting methods.

6.3 Organizational structure and accountability in risk management process

The risk management structure is based on four competence levels. The first three are as follows:

- Supervisory Boards which supervise the risk management process and make assessment of the adequacy and effectiveness of the process in accordance with the decisions in the By-laws of PZU and PZU Życie and the rules of Supervisory Boards;
- Management Boards which organize and ensure operation of the risk management system by endorsing strategies, policies, determining the risk appetite, profile and tolerance for each risk category;
- The Committees which make decisions on reducing individual risks to a level determined by the risk appetite. Committees establish procedures and methods for reduction of individual risks and they approve limits for individual types of risks.

The fourth competence level is in respect of the operating level where risk management tasks are divided into three lines of defence:

- First line of defense denotes day-to-day risk management at the level of individual entities and organizational units as well as decision making as part of the risk management process. Executives assume responsibility for implementation of an efficient risk management system in the area they oversee, specifically, for the design and effectiveness of risk identification and monitoring tasks as integral components of the processes carried out, ensuring appropriate response to emerging risks.
- Second line of defense denotes risk management by specialized units responsible for risk identification, monitoring and reporting as well as controlling limits.
- Third line of defense denotes the internal audit, whose tasks include independent control of the components of the risk management system and control activities embedded in the PZU Group's operations.

6.4 Risk appetite, risk profile and risk tolerance

Reflection of the PZU Group's strategic plans in its risk appetite, profile and tolerance ensures appropriateness and efficiency of the risk management system and prevents risk acceptance at a level which could pose a threat to the financial stability of the PZU Group companies.

The risk management strategy revised in 2013 defines the thresholds for the risk appetite, profile as well as risk tolerance limits, which result in active and conscious changes in the amount of risk assumed.

The risk appetite has been defined as the risk that the PZU Group is prepared to accept in pursuit of its business goals. The risk appetite level has been defined as the minimum level of the capital requirement coverage ratio.

The risk profile denotes quantitative limits which define in detail the risk appetite of the PZU Group companies.

Tolerance limits are additional limits introduced for individual risk types to mitigate the potential risk.

6.5 Risk identification, measurement, assessment, monitoring and reporting methods

The risk management process (risk identification, measurement, assessment, monitoring and reporting as well as the management activities) is covered by the internal control system, which ensures process compliance with internal and external regulations and enables its ongoing improvement and appropriateness for the business profile.

Identification

The risk identification process begins upon submission of a proposal for insurance product development, acquisition of a financial instrument, changes to the operating process and upon occurrence of any other event that could result in risk. It is continued until expiry of the liabilities, receivables or discontinuation of the related activities.

Risk identification consists of recognition of actual and potential sources of risk as well as estimating the materiality of the potential effect of such risk on the financial condition.

Measurement

All risks included in the risk catalogue are analyzed in terms of their materiality. Each risk considered material is subject to measurement, which includes definition of risk measures appropriate for the risk type and materiality as well as availability of data. Risk is measured by specialized units, whereas responsibility for development of tools and measurement of risk with a view to determining the risk appetite, profile and limits rests with the Risk Office ("RO").

Risk assessment

The overall risk assessment is reflected on the risk map prepared by the RO and being a systematized visualization of the risk exposure levels.

Monitoring

Risk monitoring and control consist of ongoing analysis of deviations from benchmarks, i.e. limits, thresholds, plans, prior period values as well as recommendations and guidance issued, conducted by dedicated units. Additionally, monitoring includes risk measurement through its calculation and analysis.

Reporting

Reporting is a process which enables effective risk-related communication and supports risk management at different decision-making levels, from an individual employee to the Supervisory Board. Members of the Management Board in charge of individual business lines receive up-to-date (daily/weekly) reports presenting changes in specific areas which affect the risk level as well as the use of limits aimed at mitigating the market risk.

The governing bodies receive the following information on risk:

- Management Board – quarterly and monthly information concerning the level of insurance, market, credit, concentration and operational risk;
- ALCO members – weekly information concerning the level of market risk as well as up-to-date information on market limits exceeded;
- CRC members – weekly and monthly information on the level of market, credit and concentration risk as well as up-to-date information on market, credit and concentration limits exceeded.

The Supervisory Board receives quarterly information concerning the key ratios related to insurance, market, credit, concentration and operational risk.

Management activities

Management activities related to individual risk categories have been defined in internal regulations. Depending on the type and nature of risk, the aforesaid activities may include, in particular: risk avoidance, transfer, mitigation, risk level acceptance as well as supporting tools, such as limits, reinsurance programs as well as underwriting policy reviews.

6.6 Significant events in risk management in 2013

Organizational changes

The scope of organizational changes in PZU and PZU Życie included establishment of a new, separate Compliance Unit ("CU" – July 2013) in charge of compliance risk, which had previously been managed by the RO.

Revision of the Risk Management Strategy and individual risk management policies

In 2013, PZU and PZU Życie revised the following documents regulating risk management: the Risk Management Strategy, Insurance Risk Management Policy, Market Risk Management Policy, Credit and Concentration Risk Management Policy, Operational Risk Management Policy as well as technical methodologies which supplement the aforementioned documents.

Implementation of the risk map into the risk management process

The risk map is a tool used in the risk management process, in the form of a coordinate system. Each material risk emerging at PZU or PZU Życie is included in the system, based on the value of coordinates defining the frequency of an event on the vertical axis and the size of the risk on the horizontal axis.

Solvency II

IN 2012, PZU launched a strategic project in respect of adaptation of PZU to the requirements of Solvency II; the project has been progressing in accordance with the original schedule. PZU and PZU Życie cooperate with the Office of Financial Supervision Authority on preparation for implementation of the Directive. In particular, they take part in all the quantitative tests.

6.7 Risk profile

Management of individual risk types is centralized both in PZU and PZU Życie. This principle applies to market risk, credit and concentration risk regarding investments and reinsurance and liquidity risk. Insurance and operational risk is managed on the level of individual companies depending on the nature of their operations.

Risk management in PZU and PZU Życie is focused on identifying and managing of material risks occurring in individual business areas through sufficient limiting (risk appetite defining), monitoring and clear defining of obligations and accountabilities regarding risk management in the given area.

PZU and PZU Życie control individual types of risks both by quantity analysis (eg. model based risk quantification) and by quality. On this basis, PZU and PZU Życie determine their risk profile and exposure to individual risks.

Defining of individual risks

Insurance risk - a risk of a loss or an unfavorable change in the value of insurance liabilities, resulting from incorrect assumptions regarding measurement and recognition of provisions.

Market risk - a risk of a loss or an unfavorable change in the financial position, resulting directly or indirectly from changes in the level or volatility of market prices of assets, liabilities and financial instruments.

Credit risk - a risk of a loss or an unfavorable change in the financial position, resulting from changes in the creditworthiness of issuers of securities, business partners and any debtors.

Concentration risk - a risk arising from lack of diversification in the portfolio of assets or from high exposure to counterparty risk including a single issuer of securities, contractor or debtor.

Operating risk - a risk of loss resulting from incorrect or erroneous internal processes, human actions, operation of systems or external factors.

Compliance risk - a risk of legal sanctions, financial loss or loss of reputation or credibility resulting from failure to comply by the Company's employees or entities acting on its behalf with the provisions of law, internal regulations and the adopted standards of conduct, including ethical standards.

6.7.1. Insurance risk (non-life and life insurance)

Insurance risk in PZU and PZU Życie includes:

- For non-life insurance (PZU):
 - **premium risk** - a risk of loss or unfavourable changes in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of insured events,
 - **provision risk** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of claims paid and their amounts,
 - **longevity risk** - a risk of losses or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of the mortality rate if its decrease results in a rise in the value of insurance liabilities,
 - **annuity revision risk** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of annuity revision indicators related to changes in the legal environment or the health of the insured,
 - **risk related to costs incurred** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred for insurance or reinsurance contract management,
 - **catastrophe risk** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and creation of provisions for extreme or exceptional events.
- For life insurance (PZU Życie):
 - **mortality risk** - a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its decrease results in a growth of insurance liabilities,
 - **longevity risk** - a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the mortality factor if its increase results in a growth of insurance liabilities,
 - **disability risk** - a risk of loss or unfavorable change of insurance liabilities resulting from changes in the level, trend or volatility of the disability factor and occurrence of illnesses/diseases,

- **risk related to the incurred cost amount** – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of costs incurred in relation to insurance or reinsurance contracts,
- **risk related to contract withdrawal** – a risk of loss or unfavorable change in the amount of insurance liabilities resulting from changes in the level, trend or volatility of indicators including withdrawal from contracts, termination or buyout of policies,
- **catastrophe risk** - a risk of loss or unfavourable change in the value of insurance liabilities resulting from significant uncertainty of the assumptions regarding measurement and provisions for extreme or exceptional events.

PZU and PZU Życie manage their insurance risk using the following tools:

- calculation and monitoring of technical provisions adequacy,
- tariff strategy and monitoring of the current estimates and evaluation of premium adequacy,
- underwriting,
- reinsurance.

Calculation and monitoring of adequacy of technical provisions

PZU and PZU Życie manage their adequacy risk of technical provisions through application of appropriate calculation technology and control of processes related to determining of provisions. The provisioning policy is based on:

- prudent approach to determining technical provisions,
- continuity principle stating that the technical provisioning methodology should not be modified unless important circumstances justify such modification.

For non-life insurance (PZU), the level of technical provisions is evaluated once a month and in specific circumstances (making a payment, obtaining new information from liquidators or lawyers) their amount is updated. PZU uses history of development and payments per balance sheet year to analyze the technical provisions amount. The analysis results in assessment of precision of actuarial methods used by PZU.

For life insurance products (PZU Życie), public statistics (life expectancy tables) made available by specialized entities supported by historic data derived from insurance portfolios provide the main source of data to estimate the projected frequency of claims. PZU Życie undertakes regular statistical analyses of claims frequency on the level of product group, insurance portfolio and pre-defined homogenous risk groups. These analyses allow determining relative frequency of claims compared to public statistics. Application of relevant statistical methods allows PZU Życie to determine materiality of data and where required, defining and applying appropriate security charges when creating technical provisions and measuring risk.

Estimating of technical provisions in PZU and PZU Życie is supervised by main actuaries. Additionally, each year an independent external expert calculates the provisions in order to check results provided by PZU or carries out valuation of PZU Życie life insurance portfolios within *Embedded Value* calculation.

Tariff strategy, monitoring of current estimates and premium adequacy assessment

The purpose of the tariff policy applied by PZU SA and PZU Życie SA is to ensure an adequate premium level, sufficient to cover the existing and future liabilities arising on concluded policies and expenses. Along with developing a tariff, simulations are carried out with regard to the projected insurance profit/loss in subsequent years. Additionally, regular premium adequacy and portfolio yield studies are regularly carried out for each insurance type based on various analyses and listings, including among others evaluation of the technical result on a product for a given reporting period. For selected products, profitability evaluation is carried out based on measurement of insurance portfolios under *embedded value* calculation. Frequency of analyses is adjusted to the size of product and possible result fluctuation. If the course of insurance is unfavorable, activities are undertaken

to restore a defined profitability level, involving modification of premium tariffs or the insured risk profile through modifying of relevant provisions of general insurance terms.

Underwriting

As regards corporate customers and SME, a separate underwriting process independent from the sales function is carried out. The process of selling insurance for corporate clients is preceded with analysis and assessment of risk carried out by dedicated underwriting teams. The underwriting process includes a three-stage risk acceptance system depending on competency scopes and limits granted (Regional Branch Sales Team, Regional Branch Underwriting Team, Head Office).

Reinsurance

The objective of the reinsurance program in PZU is to secure its core business by mitigation of catastrophic risk that may negatively impact the financial standing of the PZU. The task is performed in the form of concluding obligatory reinsurance contracts with additional facultative reinsurance.

Concluded reinsurance contracts mitigate the risk of PZU – among others by a non-proportional reinsurance contract that protects the portfolio of PZU from catastrophic claims (such as floods or hurricanes), non-proportional reinsurance contracts protecting property, technical, marine transport and aviation TPL and MTPL insurance portfolios from effects of large individual claims. Additionally, a proportional reinsurance contract protects the financial insurance portfolio of PZU.

The Company has developed its own catastrophic claims model. The results of the model, as well as those produced by third party models, are used to optimize the reinsurance program in terms of protection against catastrophic claims.

Outward reinsurance contracts concluded by PZU Życie protect its portfolio from accumulation of risks (a catastrophic contract), as well as individual policies with higher sums insured and the group portfolio covering effects of serious illness of a child.

6.7.1.1. Exposure to insurance risk in non-life products

The following table presents the key costs ratios in PZU Group in property and personal insurance.

Ratio	1 January - 31 December 2013	1 January - 31 December 2012
Expense ratio	25.94%	26.86%
Claims ratio net of reinsurance	61.90%	65.77%
Reinsurer's retention ratio	2.93%	2.67%
Mixed ratio	87.84%	92.63%

The expense ratio is calculated by dividing the total acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits by the net premiums earned.

The claims ratio net of reinsurance is calculated by dividing claims and the net change in technical provisions by the net premiums earned.

The reinsurer's retention ratio is calculated by dividing a reinsurer's share in gross written premiums by the gross written premiums.

Combined ratio is defined as the ratio of the total of acquisition costs, administrative expenses, reinsurance commissions and share in reinsurers' profits, claims and changes in the status of net technical provisions to the net earned premiums.

(in PLN mln)

The following tables present development of technical provisions and payments in subsequent reporting periods (in PLN million).

Claims development in direct property and personal insurance, gross (by reporting year)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Provision at the end of the reporting year	7 247	7 458	7 541	7 898	8 293	8 699	9 381	9 870	10 989	11 783
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)										
- calculated a year later	6 868	6 916	7 300	7 698	8 382	8 561	9 681	10 298	11 286	
- calculated two years later	6 387	6 815	7 287	7 833	8 410	8 856	10 192	10 753		
- calculated three years later	6 355	7 014	7 437	7 852	8 758	9 346	10 719			
- calculated four years later	6 560	7 113	7 443	8 141	9 215	9 874				
- calculated five years later	6 659	7 120	7 661	8 600	9 724					
- calculated six years later	6 700	7 307	8 103	9 077						
- calculated seven years later	6 868	7 703	8 523							
- calculated eight years later	7 228	8 058								
- calculated nine years later	7 536									
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	7 536	8 058	8 523	9 077	9 724	9 874	10 719	10 753	11 286	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	3 579	3 727	3 734	3 769	3 794	3 293	3 395	2 457	1 665	
Provision recognized in the statement of financial position	3 957	4 331	4 789	5 308	5 930	6 581	7 324	8 296	9 621	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(289)	(600)	(982)	(1 179)	(1 431)	(1 175)	(1 338)	(883)	(297)	
The above difference as a percentage of the first year provision	-4%	-8%	-13%	-15%	-17%	-14%	-14%	-9%	-3%	



(in PLN mln)

Claims development in direct property and personal insurance, gross (by reporting year)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Provision at the end of the reporting year	5 980	6 246	6 356	6 916	7 433	7 973	8 639	9 305	10 413	11 453
The provision and the total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)										
- calculated a year later	5 630	5 651	6 146	6 791	7 568	7 844	8 838	9 731	10 722	
- calculated two years later	5 175	5 605	6 202	6 969	7 598	8 092	9 345	10 185		
- calculated three years later	5 200	5 839	6 396	6 991	7 910	8 558	9 873			
- calculated four years later	5 405	5 979	6 405	7 246	8 344	9 106				
- calculated five years later	5 529	5 984	6 589	7 683	8 875					
- calculated six years later	5 568	6 146	7 009	8 189						
- calculated seven years later	5 712	6 515	7 458							
- calculated eight years later	6 050	6 882								
- calculated nine years later	6 380									
Total provision and claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	6 380	6 882	7 458	8 189	8 875	9 106	9 873	10 185	10 722	
The total claim payments (from the end of the first reporting period to the end of the current reporting period, excluding payments made before the end of the first reporting period)	2 607	2 737	2 856	3 069	3 142	2 733	2 788	2 137	1 391	
Provision recognized in the statement of financial position	3 773	4 145	4 602	5 120	5 733	6 373	7 085	8 048	9 331	
Difference between the first year provision and the run-off result estimated at the end of reporting year	(400)	(636)	(1 102)	(1 273)	(1 442)	(1 133)	(1 234)	(880)	(309)	
The above difference as a percentage of the first year provision	-7%	-10%	-17%	-18%	-19%	-14%	-14%	-9%	-3%	

Motor insurance products (MTPL and casco insurance) account for the major part of PZU portfolio. Both types of policies are usually concluded for a year, during which a claim must occur to be covered. The casco insurance policy is based on claim-made principle, so there is no uncertainty, unlike MTPL, which is an occurrence policy (up to 30 years for making a claim). The amount of property claims is particularly sensitive to the number of court claims made and court decisions regarding individual cases. In case of MTPL contracts, new types of claims emerge along with additional deferred claims, which add to the complexity of estimating the technical provisions amount.

Risk concentration in non-life insurance

For each branch, a percentage share of flood and hurricane claims paid was calculated in the accumulated amount of claims paid in the years when catastrophes (flood or hurricane) occurred, based on individual data for each property group. Depending upon the share size, branches were classified into three categories. Next, for each branch, relevant sum insured and number of policies was defined and grouped in line with the assumed classification, thus arriving at flood and hurricane risk concentration for non-life products.

Risk concentration in non-life insurance: flood claims exposure

Risk concentration in non-life insurance: flood claims exposure by level as at 31 December 2013		Sum insured					Total
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	2.3%	2.8%	1.3%	0.7%	8.2%	15.3%
	Number of policies	11.0%	2.7%	0.6%	0.2%	0.2%	14.7%
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	3.1%	3.8%	1.7%	1.1%	9.4%	19.1%
	Number of policies	15.5%	3.7%	0.8%	0.2%	0.3%	20.5%
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	9.9%	14.5%	5.3%	2.7%	33.2%	65.6%
	Number of policies	47.2%	14.1%	2.4%	0.6%	0.5%	64.8%
Total	Sum insured	15.3%	21.1%	8.3%	4.5%	50.8%	100.0%
	Number of policies	73.7%	20.5%	3.8%	1.0%	1.0%	100.0%

Risk concentration in non-life insurance: flood claims exposure by level as at 31 December 2012		Sum insured					Total
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	3.6%	4.0%	1.8%	1.2%	10.9%	21.5%
	Number of policies	18.1%	4.0%	0.8%	0.2%	0.3%	23.4%
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	2.8%	3.2%	1.5%	1.0%	9.0%	17.5%
	Number of policies	14.7%	3.2%	0.7%	0.2%	0.2%	19.0%
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	8.7%	12.2%	4.4%	2.3%	33.4%	61.0%
	Number of policies	42.4%	12.1%	2.0%	0.5%	0.6%	57.6%
Total	Sum insured	15.1%	19.4%	7.7%	4.5%	53.3%	100.0%
	Number of policies	75.2%	19.3%	3.5%	0.9%	1.1%	100.0%

Risk concentration in property and personal insurance: hurricane claims exposure

Risk concentration in non-life insurance: hurricane claims exposure by level as at 31 December 2013		Sum insured					Total
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	7.9%	11.6%	4.6%	2.3%	26.4%	52.8%
	Number of policies	38.1%	11.2%	2.1%	0.5%	0.5%	52.4%
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	6.4%	7.9%	3.1%	1.9%	18.8%	38.1%
	Number of policies	30.4%	7.8%	1.4%	0.4%	0.4%	40.4%
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	1.0%	1.5%	0.6%	0.4%	5.6%	9.1%
	Number of policies	5.3%	1.4%	0.3%	0.1%	0.1%	7.2%
Total	Sum insured	15.3%	21.0%	8.3%	4.6%	50.8%	100.0%
	Number of policies	73.8%	20.4%	3.8%	1.0%	1.0%	100.0%

Risk concentration in non-life insurance: hurricane claims exposure by level as at 31 December 2012		Sum insured					Total
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	12.3%	16.3%	6.7%	3.8%	47.7%	86.8%
	Number of policies	61.9%	16.0%	3.0%	0.8%	0.9%	82.6%
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	1.0%	1.2%	0.4%	0.2%	3.0%	5.8%
	Number of policies	4.8%	1.2%	0.2%	0.1%	0.1%	6.4%
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	1.9%	1.9%	0.6%	0.4%	2.6%	7.4%
	Number of policies	8.5%	2.0%	0.3%	0.1%	0.1%	11.0%
Total	Sum insured	15.2%	19.4%	7.7%	4.4%	53.3%	100.0%
	Number of policies	75.2%	19.2%	3.5%	1.0%	1.1%	100.0%

Risk concentration in non-life insurance: non-motor TPL

Risk concentration in property and casualty non-motor TPL insurance measured by the gross written premium amount is presented sorted by guarantee amount and type of coverage.

Gross written premium in non-life insurance – TPL as at 31 December 2013		Sum insured				Total
		PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	over PLN 2000 thousand	
General TPL in personal life and other		16.1%	3.3%	2.4%	2.9%	38.9%
Medical TPL		0.6%	1.0%	1.2%	6.2%	40.9%
Professional TPL except from medical and agricultural (legal, consulting, etc.)		5.7%	3.0%	1.3%	3.4%	14.6%
TPL of farmers and their movable property		0.0%	0.0%	0.0%	5.3%	5.3%
Product TPL		0.1%	0.0%	0.1%	0.1%	0.3%
Total		22.5%	7.3%	5.0%	15.6%	100.0%

Gross written premium in non-life insurance – TPL as at 31 December 2012	Sum insured					Total
	PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	
General TPL in personal life and other	15.2%	3.4%	2.4%	2.7%	17.5%	41.2%
Medical TPL	0.8%	1.6%	1.4%	5.9%	21.6%	31.3%
Professional TPL except from medical and agricultural (legal, consulting, etc.)	13.2%	2.9%	1.2%	1.2%	3.6%	22.1%
TPL of farmers and their movable property	0.0%	5.0%	0.0%	0.1%	0.0%	5.1%
Product TPL	0.0%	0.0%	0.1%	0.0%	0.2%	0.3%
Total	29.2%	12.9%	5.1%	9.9%	42.9%	100.0%

Sensitivity analysis

Capitalized annuity amount

Presented below is an analysis of sensitivity of the net profit/loss as well as equity to changes in the assumptions used while calculating the provision for capitalized value of annuity claims. The analysis does not present the effect of changes in the measurement of investments on the net financial profit/loss or equity, which are taken into consideration while determining the value of the provision.

Change in the assumptions for the provision for gross capitalized annuity amount in non-life insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – rise by 0.5 p.p.	422	415	422	415
Technical interest rate – drop by 1.0 p.p.	(1 092)	(1 076)	(1 092)	(1 076)
Mortality – 110% of the currently assumed level	130	125	130	125
Mortality – 90% of the currently assumed level	(145)	(140)	(145)	(140)

Change in the assumptions for the provision for capitalized annuity amount net of reinsurance in non-life insurance (PLN million)	Effect of changes in the assumptions on the net financial profit/loss		Effect of changes in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – rise by 0.5 p.p.	411	397	411	397
Technical interest rate – drop by 1.0 p.p.	(1 064)	(1 028)	(1 064)	(1 028)
Mortality – 110% of the currently assumed level	126	119	126	119
Mortality – 90% of the currently assumed level	(141)	(133)	(141)	(133)

6.7.1.2. Exposure to insurance risk in life products

Risk concentration in this class is related to the concentration of contracts or sums insured. For traditional individual insurance products, where risk of concentration is related to occurrence probability of the covered event or to potential claims amounts arising on a single event, risk assessment is based on case by case approach referring both to medical risk and – in justified cases – financial risk evaluation. Such an approach allows selection of risks (evaluation of an individual concluding an insurance contract) and defining of the maximum acceptable risk level.

In group products, concentration risk occurrence is limited by the contract portfolio size, which allows significant reduction of the level of distraction resulting from random insurance course. Additionally, the form of a contract,

under which all the insured have the same sum insured and coverage is a material risk-mitigating factor. Therefore, some risks are not concentrated within a portfolio.

In case of group insurance contracts, allowing adjusting of coverage on the level of each group contract, a simplified risk assessment is applied based on information about the industry of a given employer, having assumed relevant participation limits for the insured compared to the total employment. In such cases, premium and charges are based on statistical analyses carried out by PZU Życie in relation to frequency of claims on the level of defined homogenous risk classes, including relative frequency of events compared to public statistics.

Please note that for most contracts offered by PZU Życie, the claim amount is clearly defined in the contract. Therefore, compared to typical non-life insurance contracts, the concentration risk decreases, i.e. occurrence of single events necessitating large claims is relatively low.

Sensitivity analysis

Annuity insurance products in life insurance

Changes in the annuity insurance in life insurance portfolio (PLN million)	Effect of change in the assumptions on the net financial profit/loss		Effect of change in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – drop by 1.0 p.p.	(36)	(38)	(36)	(38)
Mortality – 90% of the currently assumed level	(13)	(13)	(13)	(13)

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

Change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products (PLN million)	Effect of change in the assumptions on the net financial profit/loss		Effect of change in the assumptions on equity	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Technical interest rate – drop by 1 p.p.	(2 221)	(2 296)	(2 221)	(2 296)
Mortality – 110% of the currently assumed level	(937)	(954)	(937)	(954)
110% of incidence proportion	(195)	(199)	(195)	(199)

Effects of clients' withdrawing from life insurance products

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

Financial statements item (PLN million)	31 December 2013	31 December 2012
Change in technical provisions	2 026	1 926
Claims paid	(726)	(648)
Change in deferred acquisition costs	(6)	(6)
Gross financial profit/loss	1 294	1 272
Net financial profit/loss	1 048	1 031
Equity	1 048	1 031

6.7.2. Market risk

Market risk in PZU and PZU Życie originates from two key sources:

- matching of assets and liabilities (ALM portfolio),
- strategic allocation of assets, i.e. determining of an optimum medium-term structure of assets (AA portfolios).

The organization in charge of the market risk management uses a process which comprises risk identification, its measurement, monitoring, reporting and management actions. *Funds investment principles* approved by the Supervisory Board (PZU and PZU Życie) are the basis for all investment activities. Detailed standards and principles of market risk management are defined in *internal investment regulations*, *Market risk management policy*, *Market risk management strategy*, *Investment objectives and guidelines* and *Additional mitigation of market risk*.

Based on the *Investment objectives and guidelines* and *Additional mitigation of market risk*, approved by ALCO, PZU AM manages the AA portfolios of PZU SA and PZU Życie SA.

Apart from the portfolios managed by TFI PZU, the market risk at PZU and PZU Życie is also managed at the Treasurer's Office and the Structured Investment Office. The former manages the portfolios of debt securities (ALM portfolio) in order to match the maturity and amount of liabilities. The latter manages long-term stake in quoted shares and invests in structured debt.

Risk Office (RO) takes part in risk identification process, performs ongoing control of investment risk assessment. Market risk is measured by the RO using the Value at Risk method (VaR). The value at risk for the market risk is calculated using an internal model. The total market risk value is determined by aggregated amounts of individual risks based on a pre-defined correlation matrix. Risk measurement complies with the requirements laid down in the Solvency II Directive. In order to effectively manage market risk, limits in the form of capital amounts allocated to each market risk, as well as limits for separate market risk factors are determined. The acceptable levels of market risk are defined by the Management Boards of PZU and PZU Życie and ALCO in the form of general exposure limits.

Market risk exposure

Value of financial assets exposed to market risk is presented below.

Carrying amount as at 31 December 2013	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets exposed to interest rate risk	47 316 890	1 630 915	48 947 805
- Fixed interest debt securities	30 085 343	1 450 292	31 535 635
- Floating interest debt securities	4 521 641	99 512	4 621 153
- Term deposits with credit institutions	7 305 896	81 111	7 387 007
- Loans	1 722 208	-	1 722 208
- Cash	548 266	-	548 266
- Buy-sell-back transactions	2 918 343	-	2 918 343
- Derivatives	215 193	-	215 193
Financial assets exposed to other price risk	3 156 865	3 129 095	6 285 960
- Shares listed on a regulated market	2 804 970	576 046	3 381 016
- Participation units and certificates in investment funds	307 081	2 553 049	2 860 130
- Derivatives	44 814	-	44 814
Total	50 473 755	4 760 010	55 233 765

Carrying amount as at 31 December 2012	Risk covering assets of the Group	Unit-linked assets	Total
Financial assets exposed to interest rate risk	42 419 221	1 792 673	44 211 894
- Fixed interest debt securities	29 583 008	1 381 922	30 964 930
- Floating interest debt securities	4 888 157	76 512	4 964 669
- Term deposits with credit institutions	4 405 653	110 521	4 516 174
- Loans	1 021 121	-	1 021 121
- Cash	136 586	-	136 586
- Buy-sell-back transactions	2 242 439	223 718	2 466 157
- Derivatives	142 257	-	142 257
Financial assets exposed to other price risk	3 689 918	2 533 000	6 222 918

(in PLN '000)

- Shares listed on a regulated market	1 862 359	541 282	2 403 641
- Participation units and certificates in investment funds	1 805 746	1 991 718	3 797 464
- Derivatives	21 813	-	21 813
Total	46 109 139	4 325 673	50 434 812

In its investing activities the PZU Group uses derivatives to manage various investment risks. Most of the aforesaid instruments reduce exposure to individual types of risks. In 2013 and 2012, the Company's derivatives comprised interest rate and FX swaps and forwards, stock index futures and bond futures. The table below presents the PZU Group's derivatives as at 31 December 2013 and 31 December 2012.

All the derivatives held by the PZU Group are classified as financial instruments held for trading.

Interest rate derivatives	Base amount by maturity at 31 December 2013					Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC including:	-	7 556 300	32 931 873	9 334 465	49 822 638	215 193	237 117
- FRA transactions	-	300 000	2 250 000	-	2 550 000	1 142	1 986
- SWAP transactions	-	7 256 300	30 681 873	9 334 465	47 272 638	214 051	235 131
Interest rate derivatives total	-	7 556 300	32 931 873	9 334 465	49 822 638	215 193	237 117

Interest rate derivatives	Base amount by maturity at 31 December 2012					Assets at fair value as at 31 December 2012	Liabilities at fair value as at 31 December 2012
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC including:	3 671 220	2 014 407	16 151 261	1 489 867	23 326 755	142 257	123 389
- FRA transactions	1 250 000	1 000 000	8 176 400	-	10 426 400	22 260	1 128
- SWAP transactions	2 421 220	1 014 407	7 974 861	1 489 867	12 900 355	119 997	122 261
Interest rate derivatives total	3 671 220	2 014 407	16 151 261	1 489 867	23 326 755	142 257	123 389

Derivatives linked to currency exchange rates	Base amount by maturity at 31 December 2013					Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC including:	1 504 938	344 873	-	-	1 849 811	22 456	632
- FRA transactions	340 136	344 873	-	-	685 009	5 556	-
- SWAP transactions	1 164 802	-	-	-	1 164 802	16 900	632
Total derivatives linked to currency exchange rates	1 504 938	344 873	-	-	1 849 811	22 456	632

(in PLN '000)

Derivatives linked to currency exchange rates	Base amount by maturity at 31 December 2012					Assets at fair value as at 31 December 2012	Liabilities at fair value as at 31 December 2012
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC including:	1 473 145	8 636	-	-	1 481 781	9 284	6 532
- FRA transactions	332 281	-	-	-	332 281	310	2 598
- SWAP transactions	1 140 864	8 636	-	-	1 149 500	8 974	3 934
Total derivatives linked to currency exchange rates	1 473 145	8 636	-	-	1 481 781	9 284	6 532

Security price derivatives	Base amount by maturity at 31 December 2013					Assets at fair value as at 31 December 2013	Liabilities at fair value as at 31 December 2013
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
Instruments listed on a regulated market including:	530 634	-	-	-	530 634	5 080	-
- futures	530 634	-	-	-	530 634	5 080	-
OTC including:	41 994	73 032	384 894	-	499 920	17 278	-
- call options	26 234	73 032	384 894	-	484 160	17 034	-
- forward transactions	15 760	-	-	-	15 760	244	-
Security price derivatives total	572 628	73 032	384 894	-	1 030 554	22 358	-

Security price derivatives	Base amount by maturity at 31 December 2012					Assets at fair value as at 31 December 2012	Liabilities at fair value as at 31 December 2012
	Up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total		
OTC instruments including:	-	76 727	264 763	-	341 490	12 529	-
- call options	-	76 727	264 763	-	341 490	12 529	-
Security price derivatives total	-	76 727	264 763	-	341 490	12 529	-

Risk concentration

Exposure to treasury securities issued by State Treasury of Poland – as at 31 December 2013, exposure of PZU Group to treasury securities issued by Polish State Treasury along with contingent transactions on those securities amounted to PLN 32,667 million (PLN 32,399 million as at 31 December 2012), accounting for 59.7% of the total financial assets (64.3% as at 31 December 2012).

PZU Group's exposure to WSE-listed stock - as at 31 December 2013, the Group's exposure to stock listed at WSE amounted to PLN 3,007 million (PLN 2,401 million as at 31 December 2012), which accounted for 5.5%

of the financial assets value (4.8% as at 31 December 2012) and 99.8% of exposure in listed equity instruments (99.9% as at 31 December 2012).

Exposure to assets of PKO BP SA - exposure to assets of a single bank was the highest for PKO BP SA. As at 31 December 2013 total exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,341 million (PLN 2,134 million as at 31 December 2012).

General exposure to bank deposits, debt securities issued by banks, their shares and derivatives amounted to PLN 10,153 million (PLN 9,199 million as at 31 December 2012), which accounted for 18.6% of financial deposits value (18.2% as at 31 December 2012).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 93.9% of total financial assets as 31 December 2013 (95.7% as at 31 December 2012).

Unit-linked insurance and investment contract portfolio as at 31 December 2013 amounted to 8.7% of the total financial assets of the PZU Group (8.2% as at 31 December 2012).

6.7.2.1. Interest rate risk

Sensitivity analysis

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

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Market interest rate drop by 100 b.p.	433	464	315	360
Market interest rate increase by 100 b.p.	(403)	(435)	(295)	(337)

The above sensitivity tests do not include effects of changes in interest rates for presented insurance and investment contract liabilities. Analysis of effects of a change in technical rate on measurement of insurance and investment contracts is presented in item 6.7.1.

6.7.2.2. FX risk

Degree of risk exposure

Information regarding exposure to FX risk by class of financial instruments is presented in item 14.

Sensitivity analysis

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

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
20% increase in FX to PLN rates	19	83	83	140
20% decrease in FX to PLN rates	(19)	(83)	(83)	(140)

Financial assets exposed to FX risk include deposit transactions and debt securities that hedge outlays for technical provisions denominated in foreign currencies, exposure to equity instruments listed at other exchanges than WSE, participation units and investment certificates of investment funds, to derivatives denominated in foreign currencies, as well as financial assets of Lithuanian and Ukrainian companies included in consolidation.

6.7.2.3. Other price risk

Degree of risk exposure

The value of available for sale and measured at fair value through profit or loss instruments portfolio is presented in items 14.2 and 14.3, respectively.

Sensitivity analysis

The following table presents sensitivity tests of the non-unit-linked financial assets portfolio of PZU Group. Disclosed figures regard effect of change in prices of equity instruments.

Change in portfolio value (PLN million)	31 December 2013		31 December 2012	
	Effect on net financial profit/loss	Effect on equity	Effect on net financial profit/loss	Effect on equity
Increase in measurement of listed equity instruments by 20%	396	456	234	304
Decrease in measurement of listed equity instruments by 20%	(396)	(456)	(234)	(304)

6.7.3. Credit risk

Exposure to credit risk in PZU and PZU Życie arises directly from investment, financial insurance and guarantee, reinsurance and bancassurance related activities. Three types of credit risk exposure occur in PZU and PZU Życie:

- bankruptcy of an issuer of instruments (e.g. corporate bonds) in which PZU and PZU Życie invest, or which they trade, eg. corporate bonds,
- risk of a PZU and PZU Życie contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities,
- risk of a PZU client's failure to meet its obligations to a third party, e.g. insurance of financial receivables, insurance guarantees.

Investment activity

Principles of managing credit risk resulting from investment activity have been defined in *Regulations of investment activity*, *Credit and concentration risk management policy* and *Credit risk management strategy* as well as in *Methods of assigning internal ratings to banks*, *Methods of assigning internal ratings to the issuers of corporate bonds*, *Methods of assigning internal ratings to the issuers of municipal bonds*.

Credit and concentration risk limits are set by Credit Risk Committee.

Limits for banks and other issuers of debt securities are determined based on the exposure. BRY gives an opinion for every limit application, before the acceptance. When determining the limits, the total exposure of PZU and PZU Życie is taken into account for the Investment Division of PZU and PZU Życie. The limits are exposure limits with respect to a single entity and/or capital group (both credit limits and concentration limits). Subsequently, Member of the Management Board in charge of the Investment Division and Member of the Management Board in charge of the RU allocate the limits to individual units within the structure of the Investment Division. The utilization of limits both with respect to the credit risk limits and the concentration risk limits is controlled by RO. An entity in which the excess occurred or the Management Board of the company is informed about the excess. Following such information, the entity is obliged to prepare and present a plan to lower the stake.

Credit risk assessment of an entity is based on internal credit ratings (rating approach differs depending on an entity type) derived from quality and quantity analysis. Ratings provide a basis for limit-setting. The ratings are updated for credit quality monitoring purposes.

Degree of risk exposure

The following table presents credit risk exposure of assets charged with credit risk in individual Fitch classes (in absence of these, Standard&Poors or Moody`s standards have been applied). The exposure to credit risk relating to repo transactions has been presented as an exposure towards the issuer.

Reports presenting assets exposed to credit risk does not include receivables, including receivables from investment contracts due to high dispersal of those assets, resulting among others in significant share of receivables from small enterprises and retail clients who do not have ratings.

(in PLN '000)

Assets exposed to credit risk as at 31 December 2013	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt securities	128 757	7 648	31 702 962	1 927 331	703 453	136 832	1 549 805	36 156 788
- held to maturity	-	-	18 604 202	165 926	12 913	76 861	-	18 859 902
- available for sale	126 939	-	1 117 344	22 909	243 965	-	-	1 511 157
- valued at fair value	-	658	11 148 733	535 203	404 791	57 647	1 549 805	13 696 837
- loans	1 818	6 990	832 683	1 203 293	41 784	2 324	-	2 088 892
Bank deposits and repo transactions involving treasury securities	26 854	43 956	4 452 000	4 070 651	1 605 745	25 033	81 111	10 305 350
Other loans	-	-	675 770	305 164	95 142	646 132	-	1 722 208
Derivatives	22 114	21 834	136 028	40 759	-	39 272	-	260 007
Reinsurers' share in net claims provisions	-	125 409	125 504	16 666	-	48 976	-	316 555
Deposits with ceding undertakings	-	87	-	-	-	-	-	87
Receivables from reinsurance	-	751	3 938	655	-	13 484	-	18 828
Total	177 725	199 685	37 096 202	6 361 226	2 404 340	909 729	1 630 916	48 779 823

Assets exposed to credit risk as at 31 December 2012	AAA	AA	A	BBB	BB	No rating	Unit-linked assets	Total
Debt securities	60 901	23 965	31 965 124	1 765 248	567 346	88 581	1 458 434	35 929 599
- held to maturity	-	-	20 856 351	253 464	7 744	-	-	21 117 559
- available for sale	59 000	-	1 637 211	56 805	245 000	-	-	1 998 016
- valued at fair value	-	-	8 656 044	636 110	314 602	-	1 458 434	11 065 190
- loans	1 901	23 965	815 518	818 869	-	88 581	-	1 748 834
Bank deposits and repo transactions involving treasury securities	14 862	55 309	4 281 661	1 837 300	314 945	144 015	334 239	6 982 331
Mortgage loans	-	-	-	-	-	26 848	-	26 848
Other loans	23	528	2 147	51	-	991 524	-	994 273
Derivatives	-	5 948	56 605	84 700	4 573	12 244	-	164 070
Reinsurers' share in net claims provisions	-	158 969	317 286	24 620	-	57 589	-	558 464
Deposits with ceding undertakings	-	329	-	-	-	-	-	329
Receivables from reinsurance	-	5 337	4 872	1 093	-	3 797	-	15 099
Total	75 786	250 385	36 627 695	3 713 012	886 864	1 324 598	1 792 673	44 671 013



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

Standard&Poor's ratings	AAA	AA	A	BBB	BB	No rating¹⁾
Ratio (%) for 2013	0.76	0.88	1.65	4.59	15.09	27.84
Ratio (%) for 2012	0.78	0.86	1.77	4.88	15.59	28.70

¹⁾ For exposure to mortgage loans without a rating, 2% ratio has been applied, which represents the ratio for the lowest investment rating BBB+.

The credit risk, to which the PZU Group was exposed as at 31 December 2012 amounted to PLN 1,523,259 thousand (PLN 1,343,503 thousand as at 31 December 2012; had ratios of 31 December 2013 been used, the risk would amount to PLN 1,273,222 thousand).

Financial insurance and guarantees

Credit risk related to the activities in the financial insurance and guarantee sector (mainly performance bonds and customs guarantees in accordance with the Civil Code) results from the risk that a client defaults under an agreement with a third party.

As regards risks assumed by the Company, the risk appetite is determined by the Credit Risk Committee, which approves the threshold exposure to credit risk by exposure type, portfolio, product lines, local PZU offices as well as individual risks and the capital group.

The risk monitoring function, independent from the sales function, operates at three levels. The first one applies to underwriting. The second is the portfolio level, for which the Financial Insurance Office is responsible. The Financial Insurance Office conducts an analysis of changes in the exposure value and claims related to the portfolio in terms of their value and volumes as well as analyses of concentration and exposure to one entity and capital group. The Risk Office receives information about the risk exposure in the portfolio to ensure adequate monitoring of the overall exposure on the Company level. The Credit Risk Committee is the third level.

The Financial Insurance Office is responsible for monitoring credit risk on an ongoing basis. Risk is managed at the level of the portfolio, product and at the individual level.

Degree of risk exposure

As at 31 December 2013, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,410 million (PLN 2,786 million as at 31 December 2012).

Reinsurance (from the credit risk perspective of the reinsurer)

With the objective to reduce the liabilities arising from the core business of PZU and PZU Życie, the Companies enter into proportional and non-proportional reinsurance contracts. The aforementioned activities are exposed to credit risk arising from reinsurers' default on their obligations.

The assessment of reinsurers' creditworthiness is conducted on the basis of market data, information obtained from external sources e.g. S&P as well as using an internal model. The model divides reinsurers into several classes, depending on the level of risk assessed. Only those entities whose risk is lower than the defined cut-off point are accepted. The acceptance process is not automatic and analyses are supplemented with assessments conducted by reinsurance brokers. In the credit risk monitoring process, an entity's model-based assessment is updated on a quarterly basis. Additionally, stress tests are carried.

The tables below present the credit risk of reinsurers being parties to transactions concluded by the PZU Group companies.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2013	Rating assigned by Standard&Poor's as at 31 December 2013
Reinsurer 1	59 295	AA-
Reinsurer 2	36 135	AA-
Reinsurer 3	35 419	no rating
Reinsurer 4	27 678	AA-
Reinsurer 5	24 579	AA-
Reinsurer 6	18 445	A+
Reinsurer 7	17 141	BBB+
Reinsurer 8	14 669	A+
Reinsurer 9	13 979	no rating
Reinsurer 10	13 465	no rating
Reinsurer 11	13 099	AA-
Reinsurer 12	10 412	A+
Reinsurer 13	9 483	AA+
Reinsurer 14	8 499	no rating
Reinsurer 15	7 223	no rating
Reinsurer 16	6 830	A
Other ¹⁾	210 254	
Total	526 605	

¹⁾ "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

Reinsurer	Reinsurers' share in (net) technical provisions as at 31 December 2012	Rating assigned by Standard&Poor's as at 31 December 2012
Reinsurer 17	184 816	A+
Reinsurer 1	56 600	AA-
Reinsurer 5	57 326	AA-
Reinsurer 2	40 812	AA-
Reinsurer 8	24 332	A+
Reinsurer 4	23 072	AA-
Reinsurer 6	17 726	A+
Reinsurer 7	19 780	BBB+
Reinsurer 9	12 622	no rating
Reinsurer 10	10 644	no rating
Reinsurer 18	10 612	A
Reinsurer 19	10 156	A+
Reinsurer 20	9 406	A+
Reinsurer 13	8 893	AA+
Reinsurer 14	8 327	no rating
Reinsurer 3	8 290	no rating
Other ¹⁾	245 920	
Total	749 334	

¹⁾ "Other" includes reinsurers' share in technical provisions, whose carrying amounts are lower than those presented above.

6.7.4. Liquidity risk

Liquidity risk is the risk of encountering difficulties in fulfillment of obligations arising from financial liabilities.

Financial liquidity risk of PZU and PZU Życie may result from three types of events:

- shortages of liquid funds in ongoing operations,
- illiquidity of financial instruments held by each Company,
- a structural gap between the maturity of assets and liabilities.

In the liquidity risk management process, PZU and PZU Życie control liquidity in the short, medium and long term.

As regards **short-term liquidity** risk management, the balance of funds in the liquidity and currency portfolios of PZU and PZU Życie is not greater than the limit defined. Moreover, both Companies have access to sell-buy-back transactions to manage the liquidity. As regards **medium-term liquidity** management, PZU and PZU Życie hold adequate liquid investment portfolios. As regards **long-term liquidity management** and structural mismatch between the maturity of assets and liabilities, PZU and PZU Życie apply Asset Liability Management (ALM), i.e. matching of the structure of financial investments which cover technical provisions to the nature of such provisions. Another objective of the ALM process is to ensure the capability to pay claims and benefits within the shortest possible time also in unfavourable economic conditions. The level of liquidity risk at PZU and PZU Życie is measured by estimating the shortages of cash required for liability payments. The estimate is made on the basis of a set of analyses, including among others, a liquidity gap analysis (a mismatch of net cash flows), an analysis of the distribution of expenditures relating to operating activities and incurred over short periods as well as currency gap analysis.

Degree of risk exposure

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

Non-life insurance

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

Item	Projected cash flows (in PLN million)				
	up to 3 months	over 3 months and up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years
A. Projected net outflows resulting from insurance contracts concluded by the end of reporting year (I + II)	(1 279)	(993)	(1 502)	(4 492)	(10 712)
I. Outflows	(1 288)	(1 000)	(1 510)	(4 521)	(10 791)
II. Inflows	9	7	8	29	79
B. Inflows from assets covering technical provisions	2 072	1 037	1 544	4 544	12 436
I. Future inflows whose value is known as at the end of reporting year	2 072	819	273	4 163	5 545
- Treasury bonds	1 299	719	194	3 312	5 422
- Treasury bills	-	-	-	-	-
- Other debt securities	8	9	6	522	87
- Term deposits with credit institutions	259	7	-	-	-
- Loans	2	2	3	197	-
- Receivables	500	38	20	10	-
- Other	4	44	50	122	36
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	-	218	1 271	381	6 815
- Treasury bonds	-	-	21	252	375
- Other debt securities	-	-	5	21	3
- Loans	-	1	2	15	-
- Investment fund units	-	217	1 243	93	4 810
- Investment certificates	-	-	-	-	1 627
III. Inflows from other assets	-	-	-	-	76
C. Balance of projected cash flows (A + B)	793	44	42	52	1 724
D. Balance of accumulated cash flows	793	837	879	931	2 655

For the purpose of the analysis, interest in investment funds (units and investment certificates) has not been consolidated, i.e. it has been presented as units and investment certificates and not as assets held by the funds, which reflects better the liquidity management prospects and ensures coverage of technical provisions with assets at the level of individual companies, taking into account statutory limits for type concentration of the aforesaid assets.

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

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in non-life insurance was 4.9 (3.7 in 2012), whereas the duration of technical provisions was 5.1 (5.4 in 2012).

Life insurance

The table below presents the match between cash flows from technical provisions and liabilities under investment contracts as well as the assets used as their coverage for life products. The table does not present cash flows relating to unit-linked insurance products and investment contracts.

Item	Projected cash flows (in PLN million)					
	up to 6 months	over 6 months and up to 1 year	over 1 year and up to 5 years	over 5 years and up to 10 years	over 10 years and up to 20 years	over 20 years
A. Projected net outflows resulting from insurance and investment contracts concluded by the end of reporting year (I + II)	(1 421)	(290)	(1 528)	(1 280)	(3 435)	(5 166)
I. Outflows	(2 266)	(1 112)	(7 221)	(6 673)	(10 157)	(9 093)
II. Inflows	845	822	5 693	5 393	6 722	3 927
B. Inflows from assets covering technical provisions	3 196	1 013	6 863	8 428	3 838	5 369
I. Future inflows whose value is known as at the end of reporting year	3 195	1 009	6 842	6 712	3 838	1 846
- Treasury bonds	1 930	483	6 232	6 673	3 838	1 846
- Other debt securities	9	1	140	39	-	-
- Term deposits with credit institutions	968	81	330	-	-	-
- Loans	288	444	140	-	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	1	4	21	1 716	-	3 523
- Treasury bonds	-	-	-	-	-	-
- Other debt securities	-	2	11	1	-	-
- Loans	1	2	10	-	-	-
- Investment fund units	-	-	-	-	-	3 523
- Investment certificates	-	-	-	1 715	-	-
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	1 775	723	5 335	7 148	403	203
D. Balance of accumulated cash flows	1 775	2 498	7 833	14 981	15 384	15 587

For the purpose of the analysis, interest in investment funds (units and investment certificates) has not been consolidated, i.e. it has been presented as units and investment certificates and not as assets held by the funds, which reflects better the liquidity management prospects and ensures coverage of technical provisions with assets at the level of individual companies, taking into account statutory limits for type concentration of the aforesaid assets.

The forecast of future claims and future net premiums in life insurance has been prepared based on assumptions regarding mortality, accident and birth rates, the insured's resignation, projected claims and projected inflows from net premiums.

The duration gap is the measure of a mismatch between the maturity dates of assets (investments) and liabilities (technical provisions). The duration of investments in life insurance was 5.5 (4.7 in 2012), whereas the duration of technical provisions was 21.1 (20.4 in 2012).

6.7.5. Operational risk

In line with the definition adopted by the PZU Group, operational risk is defined as a possibility to incur a loss arising from incorrect or irrelevant internal processes, human errors, system operations or external events.

The objective of operational risk management is to optimize operational risk and operational effectiveness of the PZU Group and therefore to reduce losses and costs resulting from such risks. The process assumes ensuring adequate effective controls and applying appropriate organizational, procedural and technical solutions. Companies in the PZU Group manage operational risk in line with the guidelines defined by the PZU Group and taking into account the type and scale of a particular company.

Members of the Management and Supervisory Boards are provided with periodical operational risk reports.

6.7.6. Non-compliance risk

The business activities of the PZU Group are exposed to the non-compliance risk. Internal regulations impose a segregation of duties regarding on-going and systemic management of the non-compliance risk.

System management, which is mainly the responsibility consists in particular in formulating solutions ensuring that the rules of non-compliance risk management are followed, monitoring of the non-compliance risk management and promoting and monitoring the compliance of internal standards and approved compliance procedures.

Ongoing compliance risk management consists in identification, assessment and measurement as well as ensuring satisfaction of regulatory requirements.

7. Fair value

7.1 Measurement techniques

7.1.1. Debt securities

The fair value of debt securities for which an active market does not exist, is measured using the discounted cash flow method. Discount rates are determined on the basis of the yield curve for government bonds shifted by the credit spread calculated as the difference between the yield on listed debt securities of issuers with a similar rating operating in similar industries and the yield on government bonds (German government bonds for bonds denominated in EUR).

7.1.2. Assets and liabilities related to investment funds

Interest in investment funds (units and investment certificates), liabilities arising from unit-linked investment contracts and liabilities to participants in consolidated investment funds are measured at the fair value of the assets of the investment fund (based on the share in the net assets of the investment fund).

7.1.3. Real property measured at fair value

Real property measured at fair value includes items classified to the following portfolios:

- investment property;
- assets held for sale. In accordance with IFRS 5, non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Additionally, prior to being actively exposed on the market and, consequently, classified as held for sale, the major part of the PZU Group entities' real property (including, in particular, items sold with a view to restructuring the real property portfolio) was classified as investment property. Consequently, its carrying amount corresponded to the fair value and the designation for sale did not have any effect on the measurement method.

Depending on the measurement method used, as appropriate for the characteristics of the real property, real property is classified to:

- Level II of the fair value hierarchy – real property measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.). The comparable method is based on the assumption that the fair value is determined by reference to the observable market prices, including adjustment ratios. The adjustment ratios take such factors into account as the passage of time and market price change trends, location, exposure, intended use defined in the local development plan, availability of means of communication and transport, area, neighborhood (including location against attractive facilities), investment opportunities, physical conditions, ownership etc.;
- Level III of the fair value hierarchy – real property measured using the income method, which consists in estimating the fair value of real property based on discounted cash flows estimated taking into account such variables as the capitalization rate, rental fee level, maintenance cost level, vacancy provision, losses on exemptions from rental payment and delinquencies etc. The level of the aforementioned variables differs depending on the characteristics and intended use of the real property measured (office space, commercial space, logistic and warehouse space), its modernity and location (transport, distance from the city center, availability, exposure etc.) as well as local market parameters (such as the capitalization rate, rental fee, maintenance costs).

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

Fair value measurement of real property is performed by licensed appraisers, whereas approval of each such measurement is additionally preceded by an inspection carried out by the employees of the PZU Group entities aimed at eliminating potential errors and inconsistencies. Any doubts are clarified with property appraisers as they arise.

Real property classified to Level III of the fair value hierarchy includes:

- real property held by investment funds being PZU's subsidiaries – measured on a semi-annual basis – as at the last day of each year half and the financial year;
- investment property held by the PZU Group companies – the most valuable items are measured if indications of a possible significant change in value occur (most frequently, on an annual basis). Each investment property, whatever its value, is measured at least every 5 years;
- real property held for sale – measured before being actively exposed on the market.

7.2 Fair value hierarchy

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

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

-
- unlisted debt securities and non-liquid debt securities (including other than treasury debt securities issued by other financial entities, local government and entities from outside the financial sector);
 - other than listed derivatives;
 - investment fund units;
 - investment property or property held for sale, measured with the use of the comparable method, including available development land and some smaller and less valuable buildings (such as residential premises, garages etc.);
 - liabilities to participants in consolidated investment funds;
 - unit-linked investment contracts.
- Level III – financial instruments measured based on input data unobserved on the existing markets (unobservable input data). The level includes:

(in PLN '000)

investment property or property held for sale, measured using the income method. Assets and liabilities measured at fair value as at 31 December 2013	Level I	Level II	Level III	Total
Assets				
Financial instruments held to maturity	19 668 604	120 882	-	19 789 486
Financial instruments available for sale	1 637 420	281 625	-	1 919 045
Equity instruments	370 228	37 660	-	407 888
Debt securities	1 267 192	243 965	-	1 511 157
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10 610 724	264 117	-	10 874 841
Equity instruments	487 287	264 117	-	751 404
Debt securities	10 123 437	-	-	10 123 437
Financial instruments measured at fair value held for trading	5 976 711	2 938 550	-	8 915 261
Equity instruments	2 528 806	2 553 048	-	5 081 854
Debt securities	3 442 825	130 575	-	3 573 400
Derivatives	5 080	254 927	-	260 007
Investment property	-	162 441	1 312 329	1 474 770
Assets held for sale ¹⁾	-	38 568	51 435	90 003
Liabilities				
Derivatives	1 169	236 580	-	237 749
Liabilities to participants in consolidated investment funds	-	267 335	-	267 335
Unit-linked investment contracts	-	870 545	-	870 545

¹⁾ Additional information concerning assets held for sale has been presented in Section 24.

Assets and liabilities measured at fair value as at 31 December 2012	Level I	Level II	Level III	Total
Aktywa				
Financial instruments held to maturity	22 668 336	120 018	-	22 788 354
Financial instruments available for sale	1 737 277	2 060 876	-	3 798 153
Equity instruments	429 482	1 370 655	-	1 800 137
Debt securities	1 307 795	690 221	-	1 998 016
Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	7 907 300	479 649	-	8 386 949
Equity instruments	5 319	166 933	-	172 252
Debt securities	7 901 981	312 716	-	8 214 697
Financial instruments measured at fair value held for trading	4 711 205	2 530 247	-	7 241 452
Equity instruments	1 968 840	2 258 049	-	4 226 889
Debt securities	2 742 365	108 128	-	2 850 493
Derivatives	-	164 070	-	164 070
Investment property	-	112 797	451 607	564 404
Assets held for sale ¹⁾	-	-	4 461	4 461
Liabilities				
Derivatives	-	129 921	-	129 921
Liabilities to participants in consolidated investment funds	-	-	-	-
Unit-linked investment contracts	-	1 001 923	-	1 001 923

¹⁾ Additional information concerning assets held for sale has been presented in Section 24.

(in PLN '000)

Level III investment property	31 December 2013	31 December 2012
Office property	888 458	395 635
Commercial property	214 440	-
Warehouse property	183 790	-
Other	25 641	55 972
Level III investment property, total	1 312 329	451 607

7.3 Reclassifications between Levels I and II

If the method of measurement of assets and liabilities changes, necessitating their transfer between Level I and Level II, such an event is identified and the transfer is made.

No significant transfers between Level I and Level II were made in 2013 and 2012.

7.4 Change in the balance of assets repeatedly measured at fair value and classified to Level III

Change in the balance of assets classified to Level III of the fair value hierarchy	1 January 2013 – 31 December 2013		1 January 2012 – 31 December 2012	
	Investment property	Assets held for sale	Investment property	Assets held for sale
Opening balance	451 607	4 461	423 112	-
Acquisition	65 560	-	26	-
Reclassification from own property	24 767	21 943	24 860	-
Reclassification from investment property	-	62 313	-	4 461
Gains or losses recognized in profit or loss as:	(92 546)	(37 282)	4 358	-
- net profit/loss on realization and impairment loss on investments	4 430	-	-	-
- net change in the fair value of assets and liabilities measured at fair value	(96 976)	(37 282)	4 358	-
Gains or losses recognized in other comprehensive income as "Reclassification of real property from property, plant and equipment to investment property"	6 308	-	11 127	-
Reclassification to own property	(24 153)	-	(7 415)	-
Reclassification to assets held for sale	(62 313)	-	(4 461)	-
Disposal	(9 561)	-	-	-
Reclassification to Level II	(118 214)	-	-	-
Change in composition of the group	1 070 945	-	-	-
Exchange differences	(71)	-	-	-
Closing balance	1 312 329	51 435	451 607	4 461

Reclassification of investment property from Level III to Level II concerned items the new measurement of which was performed on the basis of the estimated sales price.

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

In 2013 and 2012, PZU or its subsidiaries did not change the method of measuring fair value of financial instruments measured at fair value.

7.6 The most extensive and best use of a non-financial asset vs. its actual use

As at 31 December 2013, the actual use of one item of investment property (carrying amount of PLN 2,822 thousand) was not the most extensive and best use. However, the carrying amount measurement assumes its most extensive and best use.

As at 31 December 2012, the aforesaid investment property was measured at PLN 3,999 thousand and the measurement did not assume its most extensive and best use.

The aforesaid property is land with a non-permanent structure which requires demolition, with construction of new facilities being the most optimum use.

8. Capital management

The capital and dividend policy of the PZU Group for the years 2013-2015 was approved by the Management and Supervisory Board on 26 August 2013. The related information has been presented in current report 56/2013 of 26 August 2013. Presented below are the objectives of the capital and dividend policy.

8.1 Capital Policy

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

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

8.2 Dividend Policy

The amount of the dividend proposed by the PZU Management Board for a given financial year will be determined based on the following components:

- the PZU Group's consolidated financial result, where the amount of the dividend paid cannot be lower than 50% or higher than 100% of the net profit shown in the PZU Group's consolidated financial statements;
- surplus capital, where the total amount of dividends paid from surplus capital in 2013 - 2015 cannot exceed PLN 3 billion;

When determining the dividend, the Polish Financial Supervision Authority's recommendations and criteria mentioned in PZU Group's Capital Policy will be taken into account.

8.3 External capital requirements

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

Pursuant to the Act on insurance activity, insurance companies having their registered offices within the territory of the Republic of Poland are obliged to have own funds in the amount not lower than the required solvency margin and the guarantee fund.

In order to determine the value of own funds of PZU, the Company's assets are reduced by the value of intangible assets, deferred tax asset, assets allocated to settle all expected liabilities as well as shares held by the Company and other assets used to finance the equity of insurance companies operating within the same insurance capital group. The value determined in the above manner is adjusted in proportion to the shares held by PZU by the total surplus or shortage of own funds of the controlled insurance companies over their solvency margins.

The principles for calculation of the required solvency margin and the minimum value of the guarantee fund have been laid down in the Ordinance of 28 November 2003 on the manner of calculation of the solvency margin and the minimum amount of the guarantee fund for insurance sections and classes (Journal of Laws No. 211 of 2003, item 2060 with subsequent amendments, the "Solvency Margin Ordinance").

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

(in PLN '000)

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

Calculation of own funds to cover the required solvency margin	31 December 2013	31 December 2012
PZU equity	12 259 761	13 452 581
Intangible assets	(244 582)	(129 729)
Value of shares in insurance companies operating within the insurance capital group of PZU	(4 565 872)	(6 847 006)
Deferred tax asset	(347 521)	(309 132)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU's own funds:	2 403 826	4 789 418
PZU Życie 100.00%	2 407 872	4 808 768
Own funds	4 184 609	6 551 153
Required solvency margin	1 776 737	1 742 385
Surplus of own funds to cover the required solvency margin	2 407 872	4 808 768
UAB DK PZU Lietuva 99.76%	7 931	2 769
Own funds	48 438	38 550
Required solvency margin	40 488	35 774
Surplus of own funds to cover the required solvency margin	7 950	2 776
UAB PZU Lietuva Gyvybes Draudimas 99.34%	6 608	7 201
Own funds	21 996	22 873
Required solvency margin	15 344	15 624
Surplus of own funds to cover the required solvency margin	6 652	7 249
PrJSC PZU Ukraine 100.00%	(13 094)	(15 721)
Own funds	10 554	5 987
Required solvency margin	23 648	21 708
Surplus/shortage of own funds to cover the required solvency margin	(13 094)	(15 721)
PrJSC IC PZU Ukraine Life Insurance 100.00%	(5 491)	(13 599)
Own funds	9 557	2 025
Required solvency margin	15 048	15 624
Surplus/shortage of own funds to cover the required solvency margin	(5 491)	(13 599)
Own funds of PZU	9 505 612	10 956 132
Required solvency margin of PZU	1 362 353	1 343 831
Guarantee fund of PZU	454 118	447 944
Surplus of own funds to cover the required solvency margin	8 143 259	9 612 301
Surplus of own funds to cover the guarantee fund	9 051 494	10 508 188

9. Intangible assets

As at 31 December 2013 and 31 December 2012 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	1 January – 31 December 2013	1 January – 31 December 2012
Claims, benefits and change in technical provisions	12 904	17 764
Benefits and change in measurement of investment contracts	2	9
Acquisition costs	12 284	16 843
Administrative expenses	33 819	39 283
Other operating expenses	1 355	110
Costs of investment activities	79	383
Total amortization	60 443	74 392

Changes in intangible assets (by group) in the year ended 31 December 2013					
	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	559 746	446 263	206 382	1 507	767 635
Increases (due to):	211 755	207 524	172 831	471	385 057
- purchase	18 582	18 226	169 496	-	188 078
- change in the consolidation scope	7 470	5 557	-	471	7 941
- reclassification from intangible assets under construction	185 359	183 495	-	-	185 359
- other	344	246	3 335	-	3 679
Decreases (due to):	(7 269)	(4 031)	(193 509)	(17)	(200 795)
- sale	(260)	-	-	(17)	(277)
- liquidation	(5 147)	(2 705)	(4 420)	-	(9 567)
- reclassification from intangible assets under construction	-	-	(185 359)	-	(185 359)
- other	(1 862)	(1 326)	(3 730)	-	(5 592)
Exchange differences	(53)	(47)	-	-	(53)
Gross value of intangible assets – closing balance	764 179	649 709	185 704	1 961	951 844
Accumulated amortization – opening balance	(415 442)	(341 967)	-	(311)	(415 753)
Changes (due to):	(60 706)	(56 066)	-	(525)	(61 231)
- amortization for the period	(60 316)	(55 073)	-	(127)	(60 443)
- disposal	57	-	-	9	66
- liquidation	4 648	2 687	-	-	4 648
- change in the consolidation scope	(4 875)	(3 250)	-	(419)	(5 294)
- exchange differences	19	19	-	12	31
- other	(239)	(449)	-	-	(239)
Accumulated amortization – closing balance	(476 148)	(398 033)	-	(836)	(476 984)
Impairment losses – opening balance	(34 165)	-	(134 479)	-	(168 644)
Changes charged to income statement, including:	-	-	(1 910)	-	(1 910)
- other operating expenses	-	-	(1 910)	-	(1 910)
Liquidation of assets	-	-	4 420	-	4 420
Impairment losses – closing balance	(34 165)	-	(131 969)	-	(166 134)
Net value of intangible assets – closing balance	253 866	251 676	53 735	1 125	308 726

"Impairment losses", include among others losses with respect to:

- the total balance of expenditures incurred for the GraphTalk project in the amount of PLN 116,309 thousand (PLN 116,309 thousand as at 31 December 2012);
- the unit-linked insurance management module and the base license GraphTalk in the amount of PLN 34,165 thousand (PLN 34,165 thousand as at 31 December 2012);
- the "Central Customer Database" project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2012).

(in PLN '000)

Changes in intangible assets (by group) in the year ended 31 December 2012					
	Acquired concessions, patents, licenses and similar items, including:	Computer software	Intangible assets under construction	Other intangible assets	Total intangible assets
Gross value of intangible assets – opening balance	490 959	356 492	224 258	1 003	716 220
Increases (due to):	116 930	115 063	96 938	601	214 469
- purchase	2 286	2 272	88 230	601	91 117
- reclassification from intangible assets under construction	114 634	102 786	-	-	114 634
- other	10	10 005	8 708	-	8 718
Decreases (due to):	(47 145)	(24 304)	(114 814)	(4)	(161 963)
- liquidation	(46 143)	(23 089)	-	-	(46 143)
- reclassification from intangible assets under construction	-	-	(114 634)	-	(114 634)
- other	(1 002)	(1 215)	(180)	(4)	(1 186)
- exchange differences	(998)	(988)	-	(93)	(1 091)
Gross value of intangible assets – closing balance	559 746	446 263	206 382	1 507	767 635
Accumulated amortization – opening balance	(388 012)	(301 364)	-	(222)	(388 234)
Changes (due to):	(27 430)	(40 603)	-	(89)	(27 519)
- amortization for the period	(74 297)	(60 065)	-	(95)	(74 392)
- liquidation	46 143	23 089	-	-	46 143
- exchange differences	694	694	-	24	718
- other	30	(4 321)	-	(18)	12
Accumulated amortization – closing balance	(415 442)	(341 967)	-	(311)	(415 753)
Impairment losses – opening balance	(34 165)	-	(127 783)	-	(161 948)
Changes charged to income statement, including:	-	-	(6 696)	-	(6 696)
- other operating expenses	-	-	(6 696)	-	(6 696)
Impairment losses – closing balance	(34 165)	-	(134 479)	-	(168 644)
Net value of intangible assets – closing balance	110 139	104 296	71 903	1 196	183 238

10. Goodwill

Goodwill	31 December 2013	31 December 2012
Goodwill – subsidiaries	8 519	8 474
- PZU CO	5 415	5 415
- PZU Życie	60	60
- PZU Lietuva	3 044	2 999
Goodwill total	8 519	8 474

Changes in goodwill	1 January – 31 December 2013	1 January – 31 December 2012
Gross value of goodwill – opening balance	20 451	22 039
Changes due to exchange differences	(328)	(1 588)
Gross value of goodwill – closing balance	20 123	20 451
Impairment losses opening balance	(11 977)	(13 323)
Changes in impairment losses due to exchange differences	373	1 346
Impairment losses closing balance	(11 604)	(11 977)
Net value of goodwill – closing balance	8 519	8 474

Potential impairment of goodwill

Goodwill is tested for impairment based on the assessment of the recoverable amount of individual companies. Based on the impairment test it was concluded that the recoverable amounts of goodwill of PZU CO and PZU Lietuva are not lower than their book values, hence impairment was not identified.

The recoverable amount was determined on the basis of the value in use estimated using the most recent financial plans and the following assumptions:

- discount rate:
 - for PZU CO – 4.17% – being the yield rate for 10-year Treasury bonds; as the company's cash flows are generated by other PZU Group entities, the risk premium adjustment has not been made;
 - for PZU Lietuva – 6.12%, of which 3.62% is the interest rate for loans maturing within more than 5 years and provided to non-financial entities, increased by the risk premium of 2.5%;
- period for which financial forecasts were prepared by the Company's management – 1 year for PZU CO and 2 years (2014-2015) for PZU Lietuva;
- the cash flows after the last period covered by the Company's financial plan were adopted at a level equal to the cash flows in the last period covered by the above plan.

Considering the assumptions, the surplus of the recoverable amount over the carrying amount of the cash generating unit is:

- PLN 82,412 thousand for PZU CO;
- LTL 24,465 thousand for PZU Lietuva.

If the discount rate used is increased by 0.5 p.p., the aforementioned surpluses will decrease by:

- PLN 15,092 thousand for PZU CO;
- LTL 6,440 thousand for PZU Lietuva, respectively.

The maximum discount rates which do not result in a surplus of the carrying amount of investments over their recoverable amount are 10.02% for PZU CO, 8.58% for PZU Lietuva.

11. Property, plant and equipment

Changes in property, plant and equipment (by group) in the year ended 31 December 2013						
	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real Property ¹⁾	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	604 403	104 430	44 258	1 110 039	137 027	2 000 157
Increases (due to):	40 362	31 501	38 404	56 147	19 996	186 410
- purchase	15 469	1 474	38 167	6 379	12 939	74 428
- change in the consolidation scope	3 525	11 581	220	689	2 221	18 236
- reclassification from investment property	-	-	-	46 966	-	46 966
- reclassification from assets under construction	20 947	18 226	-	200	2 666	42 039
- other	421	220	17	1 913	2 170	4 741
Decreases (due to):	(62 037)	(19 429)	(59 708)	(85 201)	(17 397)	(243 772)
- sale	(7 999)	(19 205)	(2)	-	(271)	(27 477)
- liquidation	(50 185)	(224)	(12 257)	(2 904)	(16 876)	(82 446)
- reclassification to held for sale according to IFRS 5	-	-	-	(25 001)	-	(25 001)
- reclassification to investment property	-	-	-	(57 296)	-	(57 296)
- reclassification from assets under construction	-	-	(42 039)	-	-	(42 039)
- other	(3 853)	-	(5 410)	-	(250)	(9 513)
Exchange differences	(124)	(84)	-	50	(77)	(235)
Gross value of property, plant and equipment – closing balance	582 604	116 418	22 954	1 081 035	139 549	1 942 560
Accumulated depreciation – opening balance	(523 810)	(53 521)	-	(308 816)	(84 730)	(970 877)
Changes (due to):	29 511	545	-	(13 714)	(1 320)	15 022
- depreciation for the period	(28 691)	(12 726)	-	(26 649)	(13 481)	(81 547)
- sale	7 362	18 286	-	-	276	25 924
- liquidation	50 002	123	-	2 046	16 234	68 405
- change in the consolidation scope	(2 301)	(4 975)	-	(255)	(1 807)	(9 338)
- reclassification to held for sale according to IFRS 5	-	-	-	5 468	-	5 468
- reclassification to investment property	-	-	-	5 873	-	5 873
- exchange differences	87	50	-	21	73	231
- other	3 052	(213)	-	(218)	(2 615)	6
Accumulated depreciation – closing balance	(494 299)	(52 976)	-	(322 530)	(86 050)	(955 855)
Impairment losses – opening balance	-	-	(12 238)	(24 725)	-	(36 963)
Changes recognized in the financial profit/loss, included in:	-	-	-	(37 441)	-	(37 441)
- other operating expenses	-	-	-	(52 129)	-	(52 129)
- other operating revenue	-	-	-	14 688	-	14 688
Other changes:	-	-	12 238	2 742	-	14 980
- change in the consolidation scope	-	-	-	(124)	-	(124)
- reclassification to held for sale according to IFRS 5	-	-	-	2 873	-	2 873
- exchange differences	-	-	-	(7)	-	(7)
- liquidation of leasehold improvements	-	-	12 238	-	-	12 238
Impairment losses – closing balance	-	-	-	(59 424)	-	(59 424)
Net value of property, plant and equipment – closing balance	88 305	63 442	22 954	699 081	53 499	927 281

¹⁾ including land perpetual usufruct

(in PLN '000)

Changes in property, plant and equipment in the year ended 31 December 2012						
	Technical equipment and machines	Vehicles	Property, plant and equipment under construction	Real property ¹⁾	Other property, plant and equipment	Total property, plant and equipment
Gross value of property, plant and equipment – opening balance	669 581	101 018	39 448	1 212 417	147 110	2 169 574
Increases (due to):	22 445	24 193	53 114	59 563	15 318	174 633
- purchase	4 803	555	34 906	16 685	3 513	60 462
- reclassification from investment property	-	-	-	33 990	-	33 990
- reclassification from assets under construction	17 253	22 543	-	6 274	9 114	55 184
- other	389	1 095	18 208	2 614	2 691	24 997
Decreases (due to):	(86 767)	(20 578)	(48 304)	(161 157)	(25 025)	(341 831)
- sale	(510)	(20 578)	(3 110)	(447)	(357)	(25 002)
- liquidation	(77 077)	-	(30)	(2 826)	(50 363)	(130 296)
- reclassification to held for sale according to IFRS 5	(3 566)	-	-	(54 347)	-	(57 913)
- reclassification to investment property	-	-	-	(68 517)	-	(68 517)
- reclassification from assets under construction	-	-	(55 184)	-	-	(55 184)
- other	(5 614)	-	10 020	(35 020)	25 695	(4 919)
Exchange differences	(856)	(203)	-	(784)	(376)	(2 219)
Gross value of property, plant and equipment – closing balance	604 403	104 430	44 258	1 110 039	137 027	2 000 157
Accumulated depreciation – opening balance	(573 431)	(58 877)	-	(322 649)	(109 206)	(1 064 163)
Changes (due to):	49 621	5 356	-	13 833	24 476	93 286
- depreciation for the period	(33 885)	(13 406)	-	(30 336)	(13 195)	(90 822)
- sale	379	19 718	-	345	311	20 753
- liquidation	76 827	-	-	1 265	47 804	125 896
- reclassification to held for sale according to IFRS 5	644	-	-	14 775	-	15 419
- reclassification to investment property	-	-	-	18 318	-	18 318
- exchange differences	626	117	-	129	277	1 149
- other	5 030	(1 073)	-	9 337	(10 721)	2 573
Accumulated depreciation – closing balance	(523 810)	(53 521)	-	(308 816)	(84 730)	(970 877)
Impairment losses – opening balance	(750)	-	(11 140)	(38 140)	-	(50 030)
Changes recognized in the financial profit/loss, included in:	750	-	-	2 618	-	3 368
- other operating revenue	750	-	-	2 618	-	3 368
Other changes:	-	-	(1 098)	10 797	-	9 699
- reclassification to held for sale according to IFRS 5	-	-	-	2	-	2
- reclassification to investment property	-	-	-	9 635	-	9 635
- exchange differences	-	-	-	62	-	62
- other	-	-	(1 098)	1 098	-	-
Impairment losses – closing balance	-	-	(12 238)	(24 725)	-	(36 963)
Net value of property, plant and equipment – closing balance	80 593	50 909	32 020	776 498	52 297	992 317

¹⁾ including land perpetual usufruct

"Reclassifications to investment property" include the same values, as explained in Section 12.

12. Investment property

Investment property	31 December 2013	31 December 2012
Own land	176 730	187 963
Land perpetual usufruct	32 210	54 672
Buildings and structures	1 259 223	303 066
Cooperative ownership of premises	6 607	18 703
Total investment property	1 474 770	564 404

Changes in investment property	1 January – 31 December 2013	1 January – 31 December 2012
Net book value – opening balance	564 404	534 222
Increases (due to)	1 190 779	40 590
- purchase	321 498	26
- change in the consolidation scope	817 858	-
- reclassification from real property used for internal purposes	51 423	40 564
Decreases (due to)	(198 754)	(38 460)
- sale and liquidation	(28 677)	-
- reclassification to real property used for internal purposes	(46 966)	(33 990)
- reclassification to held for sale according to IFRS 5	(123 111)	(4 470)
Net gain (loss) on remeasurement at fair value	(81 586)	28 200
- recognized in the financial profit/loss	(99 206)	7 514
- recognized in other comprehensive income	17 620	20 686
Exchange differences	(73)	(148)
Net book value – closing balance	1 474 770	564 404

The position "Land perpetual usufruct" contains a right to use a land for up to 99 years. Land perpetual usufruct can be subject of sale.

"Reclassifications from real property for internal purposes" present the carrying amount of real property (historical cost less accumulated depreciation and impairment losses) as at the reclassification (change of use) date. The effect of remeasurement of the aforesaid real property to its fair value as at the reclassification date has been presented as "Gain (loss) on remeasurement to fair value – charged to other comprehensive income" above.

The fair value of investment property results from valuations by independent appraisers having the relevant licenses as required by the law, using the comparable or the income method based on the current market ratios, conducted mainly in 2013.

13. Entities measured using the equity method

Entities measured using the equity method	31 December 2013	31 December 2012
EMC	47 954	-
GSU Pomoc	616	-
Armatura Tower	25	-
Entities measured using the equity method, total	48 595	-

Change in the share in the net assets of associates	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	-	-
Change in the scope of entities measured using the equity method	685	-
Purchase of EMC shares	19 176	-
Acquisition of shares in Armatura Tower sp. z o.o.	25	-
Share in net profit	(428)	-
Dividends ¹⁾	(104)	-
Share in other comprehensive income	(20)	-
Closing balance	19 334	-

¹⁾ Dividend paid by GSU Pomoc Górniczy Klub Ubezpieczonych SA

Change in goodwill related to associates	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	-	-
Acquisition of an associate	29 261	-
Closing balance	29 261	-

The total balance of goodwill related to associates concerns EMC.

13.1 Accounting for the acquisition of EMC shares

Significant influence over EMC was assumed through a business combination carried out in stages, as referred to in Par. 41 and 42 of IFRS 3. The PZU Group entities held EMC shares prior to the acquisition date. In accordance with Par. 42, the fair value of EMC shares held by the consolidated PZU Group entities served as the basis for accounting for the acquisition of EMC.

If new information concerning the facts and circumstances at the acquisition date was obtained, which, if known, could have an effect on measurement of the amounts recognized as at the aforementioned date, the amounts related to the accounting for acquisition of EMC shares, as presented below, could change. In accordance with IFRS 3, the measurement period should not exceed one year of the acquisition date.

Accounting for the acquisition of EMC shares	Acquisition I	Acquisition II	Acquisition III	Total
Number of shares measured using the equity method	1 296 636	617 745	572 887	2 487 268
Total number of EMC shares	8 327 214	8 327 214	8 327 214	8 327 214
Share in the total number of EMC shares	15.5710%	7.4184%	6.8797%	29.8691%
Fair value of EMC shares measured using the equity method (stock market valuation)	24 519	12 414	11 504	48 437
Net assets of EMC	65 266	65 266	65 646	
- including goodwill recognized in EMC's accounting records	1 151	1 151	1 151	
Adjusted net assets	64 115	64 115	64 495	
Share in adjusted net assets	9 983	4 756	4 437	19 176
Goodwill	14 536	7 658	7 067	29 261

13.2 Impairment test

The impairment test is based on the assessment of the recoverable amount of EMC. Based on the impairment test it was concluded that the recoverable amount was not lower than the book value, hence no impairment had occurred.

The recoverable amount was determined on the basis of the fair value estimated using the most recent financial plans and the following assumptions:

- discount rate – 9.33% – taking into account the risk-free rate of 4.17% (yield on 10-year Treasury bonds), the risk premium, leverage and cost of debt etc.;
- the period covered by the financial plans – 8 years of the end of the reporting period (until 2021) – adoption of such a long period results from the planned investment expenditure and the time when it is expected to generate a return;
- increased cash flows after the last period covered by the financial plan, also taking into account higher capital expenditure – at the level of 0.6%.

Considering the assumptions, the surplus of the recoverable amount over the carrying amount is PLN 27,916 thousand. If the discount rate used is increased by 0.5 p.p., the aforementioned surplus will decrease by PLN 16,727 thousand.

The maximum discount rate which will not result in a surplus of the carrying amount over the recoverable amount is 10.19%.

14. Financial assets

In 2013 and in 2012, financial instruments were not reclassified from groups carried at fair value to those carried at cost or amortized cost.

14.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2013			31 December 2012		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	18 859 902	18 859 902	19 789 486	21 117 559	21 117 559	22 788 354
Debt securities	18 859 902	18 859 902	19 789 486	21 117 559	21 117 559	22 788 354
Government securities	18 633 511	18 633 511	19 559 211	20 906 285	20 906 285	22 572 525
Fixed rate	17 589 984	17 589 984	18 545 453	20 460 298	20 460 298	22 117 355
Floating rate	1 043 527	1 043 527	1 013 758	445 987	445 987	455 170
Other securities	226 391	226 391	230 275	211 274	211 274	215 829
Listed on a regulated market	105 509	105 509	109 393	91 256	91 256	95 811
Fixed rate	105 509	105 509	109 393	91 256	91 256	95 811
Not listed on a regulated market	120 882	120 882	120 882	120 018	120 018	120 018
Floating rate	120 882	120 882	120 882	120 018	120 018	120 018
Total financial instruments held to maturity	18 859 902	18 859 902	19 789 486	21 117 559	21 117 559	22 788 354

(in PLN '000)

Financial instruments held to maturity	31 December 2013	31 December 2012
Short-term	1 551 593	7 063 026
Long-term	17 308 309	14 054 533
Total financial instruments held to maturity	18 859 902	21 117 559

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	1 551 593	3 223 920	306 849	2 578 452	114 528	11 084 560	18 859 902
Government securities	1 551 021	3 211 485	271 753	2 554 990	59 603	10 984 659	18 633 511
Fixed rate	1 551 021	3 211 485	110 506	2 287 248	34 460	10 395 264	17 589 984
Floating rate	-	-	161 247	267 742	25 143	589 395	1 043 527
Other	572	12 435	35 096	23 462	54 925	99 901	226 391
Listed on a regulated market	572	12 435	35 096	-	31 466	25 940	105 509
Fixed rate	572	12 435	35 096	-	31 466	25 940	105 509
Not listed	-	-	-	23 462	23 459	73 961	120 882
Floating rate	-	-	-	23 462	23 459	73 961	120 882
Total	1 551 593	3 223 920	306 849	2 578 452	114 528	11 084 560	18 859 902

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	7 063 026	1 478 809	2 642 230	270 715	2 302 606	7 360 173	21 117 559
Government securities	7 063 026	1 478 809	2 634 417	239 782	2 279 485	7 210 766	20 906 285
Fixed rate	7 063 026	1 478 809	2 634 417	79 251	2 279 485	6 925 310	20 460 298
Floating rate	-	-	-	160 531	-	285 456	445 987
Other	-	-	7 813	30 933	23 121	149 407	211 274
Listed on a regulated market	-	-	7 813	30 933	-	52 510	91 256
Fixed rate	-	-	7 813	30 933	-	52 510	91 256
Not listed	-	-	-	-	23 121	96 897	120 018
Floating rate	-	-	-	-	23 121	96 897	120 018
Total	7 063 026	1 478 809	2 642 230	270 715	2 302 606	7 360 173	21 117 559

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2013

(in PLN '000)

Financial instruments held to maturity	31 December 2013				31 December 2012			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Debt securities	18 538 279	239 611	82 012	18 859 902	20 833 881	219 697	63 981	21 117 559
Government securities	18 435 340	116 159	82 012	18 633 511	20 730 779	111 525	63 981	20 906 285
Fixed rate	17 391 813	116 159	82 012	17 589 984	20 284 792	111 525	63 981	20 460 298
Floating rate	1 043 527	-	-	1 043 527	445 987	-	-	445 987
Other securities	102 939	123 452	-	226 391	103 102	108 172	-	211 274
Listed on a regulated market	52 506	53 003	-	105 509	52 510	38 746	-	91 256
Fixed rate	52 506	53 003	-	105 509	52 510	38 746	-	91 256
Not listed on a regulated market	50 433	70 449	-	120 882	50 592	69 426	-	120 018
Floating rate	50 433	70 449	-	120 882	50 592	69 426	-	120 018
Total	18 538 279	239 611	-	18 859 902	20 833 881	219 697	63 981	21 117 559

14.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2013			31 December 2012		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	1 919 045	n/a	1 919 045	3 798 153	n/a	3 798 153
Equity instruments	407 888	n/a	407 888	1 800 137	n/a	1 800 137
Listed on regulated market	370 228	n/a	370 228	429 482	n/a	429 482
Not listed on regulated market	37 660	n/a	37 660	1 370 655	n/a	1 370 655
Debt securities	1 511 157	1 486 465	1 511 157	1 998 016	1 977 886	1 998 016
Government securities	1 134 622	1 127 859	1 134 622	1 627 215	1 621 414	1 627 215
Fixed rate	1 032 503	1 026 253	1 032 503	1 488 118	1 485 767	1 488 118
Floating rate	102 119	101 606	102 119	139 097	135 647	139 097
Other securities	376 535	358 606	376 535	370 801	356 472	370 801
Listed on regulated market	132 570	124 937	132 570	81 061	77 361	81 061
Fixed rate	132 570	124 937	132 570	81 061	77 361	81 061
Not listed on regulated market	243 965	233 669	243 965	289 740	279 111	289 740
Floating rate	243 965	233 669	243 965	289 740	279 111	289 740
Instruments for which fair value may not be determined	3 128	n/a	n/a	126 348	n/a	n/a
Equity instruments	3 128	n/a	n/a	126 348	n/a	n/a
Not listed on regulated market	3 128	n/a	n/a	126 348 ¹⁾	Na	n/a
Financial instruments available for sale, total	1 922 173	n/a	n/a	3 924 501	n.a	n/a

¹⁾ This item includes shares in controlled entities not included under consolidation, whose carrying amount as at 31 December 2012 was PLN 121.347 thousand.

(in PLN '000)

Financial instruments available for sale	31 December 2013	31 December 2012
Short-term	221 542	141 232
Long-term	1 700 631	3 783 269
Total financial instruments available for sale	1 922 173	3 924 501

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

Carrying amount of debt financial instruments available for sale as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	158 210	300 090	206 637	169 777	59 452	616 991	1 511 157
Government securities	158 210	217 568	197 348	156 158	59 452	345 886	1 134 622
Fixed rate	158 210	217 568	197 289	103 636	59 452	296 348	1 032 503
Floating rate	-	-	59	52 522	-	49 538	102 119
Other securities	-	82 522	9 289	13 619	-	271 105	376 535
Listed on regulated market	-	82 522	9 289	13 619	-	27 140	132 570
Fixed rate	-	82 522	9 289	13 619	-	27 140	132 570
Not listed on regulated market	-	-	-	-	-	243 965	243 965
Floating rate	-	-	-	-	-	243 965	243 965
Total	158 210	300 090	206 637	169 777	59 452	616 991	1 511 157

Carrying amount of debt financial instruments available for sale as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	139 317	489 528	324 271	295 640	195 609	553 651	1 998 016
Government securities	95 345	489 528	283 000	286 760	191 204	281 378	1 627 215
Fixed rate	95 345	489 528	283 000	160 026	178 841	281 378	1 488 118
Floating rate	-	-	-	126 734	12 363	-	139 097
Other securities	43 972	-	41 271	8 880	4 405	272 273	370 801
Listed on regulated market	-	-	41 271	8 880	4 405	26 505	81 061
Fixed rate	-	-	41 271	8 880	4 405	26 505	81 061
Not listed on regulated market	43 972	-	-	-	-	245 768	289 740
Floating rate	43 972	-	-	-	-	245 768	289 740
Total	139 317	489 528	324 271	295 640	195 609	553 651	1 998 016

(in PLN '000)

Financial instruments available for sale	31 December 2013					31 December 2012					
	PLN	USD	EUR	UAH	Total	PLN	USD	EUR	LTL	UAH	Total
Equity instruments	410 839	76	99	2	411 016	1 857 508	77	100	40 235	28 565	1 926 485
Listed on a regulated market	370 228	-	-	-	370 228	429 482	-	-	-	-	429 482
Not listed on a regulated market	40 611	76	99	2	40 788	1 428 026	77	100	40 235	28 565	1 497 003
Debt securities	1 116 963	-	394 194	-	1 511 157	1 884 011	-	114 005	-	-	1 998 016
Government securities	845 858	-	288 764	-	1 134 622	1 567 767	-	59 448	-	-	1 627 215
Fixed rate	743 739	-	288 764	-	1 032 503	1 428 670	-	59 448	-	-	1 488 118
Floating rate	102 119	-	-	-	102 119	139 097	-	-	-	-	139 097
Other securities	271 105	-	105 430	-	376 535	316 244	-	54 557	-	-	370 801
Listed on a regulated market	27 140	-	105 430	-	132 570	26 504	-	54 557	-	-	81 061
Fixed rate	27 140	-	105 430	-	132 570	26 504	-	54 557	-	-	81 061
Not listed on a regulated market	243 965	-	-	-	243 965	289 740	-	-	-	-	289 740
Floating rate	243 965	-	-	-	243 965	289 740	-	-	-	-	289 740
Total	1 527 802	76	394 293	2	1 922 173	3 741 519	77	114 105	40 235	28 565	3 924 501

14.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2013 and 31 December 2012, the PZU Group companies were not parties to any contracts with embedded derivatives, whose nature and the relating risks would not be closely connected with the host contract.

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2013	31 December 2012
Instruments for which fair value may be determined	10 874 841	8 386 949
Equity instruments	751 404	172 252
Listed on a regulated market	487 287	5 319
Not listed on a regulated market	264 117	166 933
Debt securities	10 123 437	8 214 697
Government securities	10 090 090	8 144 078
Fixed rate	9 126 878	6 240 183
Floating rate	963 212	1 903 895
Other securities	33 347	70 619
Listed on a regulated market	33 347	26 647
Fixed rate	33 347	26 647
Not listed on a regulated market	-	43 972
Floating rate	-	43 972
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10 874 841	8 386 949

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2013	31 December 2012
Instruments for which fair value may be determined	8 915 261	7 241 452
Equity instruments	5 081 854	4 226 889
Listed on a regulated market	2 528 806	1 968 840
Not listed on a regulated market	2 553 048	2 258 049
Debt securities	3 573 400	2 850 493
Government securities	3 499 207	2 799 572
Fixed rate	3 473 888	2 551 501
Floating rate	25 319	248 071
Other securities	74 193	50 921
Not listed on a regulated market	74 193	50 921
Floating rate	74 193	50 921
Derivatives	260 007	164 070
Total financial instruments measured at fair value through profit or loss – held for trading	8 915 261	7 241 452

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	31 December 2013	31 December 2012
Short-term	4 055 682	292 250
Long-term	6 819 159	8 094 699
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	10 874 841	8 386 949

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

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	527 985	192 344	2 278 299	1 995 778	993 229	4 135 802	10 123 437
Government securities	527 985	192 344	2 277 469	1 995 627	993 229	4 103 436	10 090 090
Fixed rate	527 985	192 344	2 231 404	1 138 457	993 229	4 043 459	9 126 878
Floating rate	-	-	46 065	857 170	-	59 977	963 212
Other securities	-	-	830	151	-	32 366	33 347
Listed on a regulated market	-	-	830	151	-	32 366	33 347
Fixed rate	-	-	830	151	-	32 366	33 347
Total	527 985	192 344	2 278 299	1 995 778	993 229	4 135 802	10 123 437

Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition – by redemption date as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	292 250	759 718	232 408	2 741 699	1 224 974	2 963 648	8 214 697
Government securities	248 278	759 718	232 408	2 741 557	1 224 974	2 937 143	8 144 078
Fixed rate	248 278	759 718	222 152	1 973 584	305 516	2 730 935	6 240 183
Floating rate	-	-	10 256	767 973	919 458	206 208	1 903 895
Other securities	43 972	-	-	142	-	26 505	70 619
Listed on a regulated market	-	-	-	142	-	26 505	26 647
Fixed rate	-	-	-	142	-	26 505	26 647
Not listed on a regulated market	43 972	-	-	-	-	-	43 972
Floating rate	43 972	-	-	-	-	-	43 972
Total	292 250	759 718	232 408	2 741 699	1 224 974	2 963 648	8 214 697

(in PLN '000)

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2013	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	247 102	247 871	586 852	410 874	364 920	1 715 781	3 573 400
Government securities	247 102	247 871	586 852	359 838	341 763	1 715 781	3 499 207
Fixed rate	247 102	222 552	586 852	359 838	341 763	1 715 781	3 473 888
Floating rate	-	25 319	-	-	-	-	25 319
Other securities	-	-	-	51 036	23 157	-	74 193
Not listed on a regulated market	-	-	-	51 036	23 157	-	74 193
Floating rate	-	-	-	51 036	23 157	-	74 193
Total	247 102	247 871	586 852	410 874	364 920	1 715 781	3 573 400

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2012	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	Total
Debt securities	357 910	494 219	440 695	616 364	434 776	506 529	2 850 493
Government securities	357 910	494 219	440 695	616 364	383 855	506 529	2 799 572
Fixed rate	357 910	468 628	440 695	393 884	383 855	506 529	2 551 501
Floating rate	-	25 591	-	222 480	-	-	248 071
Other securities	-	-	-	-	50 921	-	50 921
Not listed on a regulated market	-	-	-	-	50 921	-	50 921
Floating rate	-	-	-	-	50 921	-	50 921
Total	357 910	494 219	440 695	616 364	434 776	506 529	2 850 493



(in PLN '000)

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2013						31 December 2012			
	PLN	USD	EUR	LTL	Other	Total	PLN	EUR	LTL	Total
Equity instruments	716 894	10 143	18 971	4 911	485	751 404	169 401	-	2 851	172 252
Listed on a regulated market	477 812	-	5 429	3 561	485	487 287	2 839	-	2 480	5 319
Not listed on a regulated market	239 082	10 143	13 542	1 350	-	264 117	166 562	-	371	166 933
Debt securities	9 619 573	192 778	157 086	3 351	150 649	10 123 437	8 195 120	4 597	14 980	8 214 697
Government securities	9 587 207	192 700	156 183	3 351	150 649	10 090 090	8 124 643	4 455	14 980	8 144 078
Fixed rate	8 623 995	192 700	156 183	3 351	150 649 ¹⁾	9 126 878	6 220 748	4 455	14 980	6 240 183
Floating rate	963 212	-	-	-	-	963 212	1 903 895	-	-	1 903 895
Other securities	32 366	78	903	-	-	33 347	70 477	142	-	70 619
Listed on a regulated market	32 366	78	903	-	-	33 347	26 505	142	-	26 647
Fixed rate	32 366	78	903	-	-	33 347	26 505	142	-	26 647
Not listed on a regulated market	-	-	-	-	-	-	43 972	-	-	43 972
Floating rate	-	-	-	-	-	-	43 972	-	-	43 972
Total	10 336 467	202 921	176 057	8 262	151 134	10 874 841	8 364 521	4 597	17 831	8 386 949

¹⁾ including PLN 108,686 thousand in RON and PLN 41,963 thousand in TRL

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2013				
	PLN	USD	EUR	Other	Total
Equity instruments	4 377 944	296 739	351 871	55 300	5 081 854
Listed on a regulated market	1 972 270	229 562	271 674	55 300	2 528 806
Not listed on a regulated market	2 405 674	67 177	80 197	-	2 553 048
Debt securities	2 583 280	175 132	814 988	-	3 573 400
Government securities	2 509 087	175 132	814 988	-	3 499 207
Fixed rate	2 483 768	175 132	814 988	-	3 473 888
Floating rate	25 319	-	-	-	25 319
Other securities	74 193	-	-	-	74 193
Not listed on a regulated market	74 193	-	-	-	74 193
Floating rate	74 193	-	-	-	74 193
Derivatives	110 263	56 956	27 666	65 122	260 007
Total	7 071 487	528 827	1 194 525	120 422	8 915 261



(in PLN '000)

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2012					
	PLN	USD	EUR	HUF	Other	Total
Equity instruments	4 045 273	103 608	61 027	3 933	13 048	4 226 889
Listed on a regulated market	1 899 802	51 631	426	3 933	13 048	1 968 840
Not listed on a regulated market	2 145 471	51 977	60 601	-	-	2 258 049
Debt securities	1 767 189	309 228	500 774	264 689	8 613	2 850 493
Government securities	1 716 268	309 228	500 774	264 689	8 613	2 799 572
Fixed rate	1 468 197	309 228	500 774	264 689	8 613	2 551 501
Floating rate	248 071	-	-	-	-	248 071
Other securities	50 921	-	-	-	-	50 921
Not listed on a regulated market	50 921	-	-	-	-	50 921
Floating rate	50 921	-	-	-	-	50 921
Derivatives	107 938	251	21 900	13 452	20 529	164 070
Total	5 920 400	413 087	583 701	282 074	42 190	7 241 452

(in PLN '000)

14.4 Loans

Loans	31 December 2013	31 December 2012
Short-term	10 066 968	6 622 965
Long-term	4 049 569	3 129 650
Loans total	14 116 537	9 752 615

Loans as at 31 December 2013	Carrying amount by maturity date						Total
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	
Debt securities	56 997	29 898	291 704	700 816	100 224	909 253	2 088 892
Government securities	2 142	28 079	-	-	-	-	30 221
Fixed rate	2 142	28 079	-	-	-	-	30 221
Other	54 855	1 819	291 704	700 816	100 224	909 253	2 058 671
Listed on a regular market	8 916	1 819	-	-	-	-	10 735
Fixed rate	8 916	1 819	-	-	-	-	10 735
Not listed on a regular market	45 939	-	291 704	700 816	100 224	909 253	2 047 936
Floating rate	45 939	-	291 704	700 816	100 224	909 253	2 047 936
Other, including:	10 009 971	220 941	328 920	583 350	356 072	528 391	12 027 645
- buy-sell-back transactions	2 918 343	-	-	-	-	-	2 918 343
- term deposits with credit institutions	7 091 470	175 671	119 866	-	-	-	7 387 007 ¹⁾
- deposits with ceding undertakings	87	-	-	-	-	-	87
- loans	71	45 270	209 054	583 350	356 072	528 391	1 722 208
Total	10 066 968	250 839	620 624	1 284 166	456 296	1 437 644	14 116 537

¹⁾ More than 88% of term deposits with credit institutions mature before the end of June 2014.

Loans as at 31 December 2012	Carrying amount by maturity date						Total
	up to 1 year	over 1 year and up to 2 years	over 2 years and up to 3 years	over 3 years and up to 4 years	over 4 years and up to 5 years	over 5 years	
Debt securities	11 775	101 467	9 860	47 086	701 234	877 412	1 748 834
Government securities	3 205	4 231	9 860	-	-	-	17 296
Fixed rate	3 205	4 231	9 860	-	-	-	17 296
Other	8 570	97 236	-	47 086	701 234	877 412	1 731 538
Listed on a regular market	8 570	-	-	-	-	-	8 570
Fixed rate	8 570	-	-	-	-	-	8 570
Not listed on a regular market	-	97 236	-	47 086	701 234	877 412	1 722 968
Floating rate	-	97 236	-	47 086	701 234	877 412	1 722 968
Other, including:	6 611 190	161 934	216 686	65 065	109 830	839 076	8 003 781
- buy-sell-back transactions	2 466 157	-	-	-	-	-	2 466 157
- term deposits with credit institutions	4 144 704	161 934	171 319	38 217	-	-	4 516 174
- deposits with ceding undertakings	329	-	-	-	-	-	329
- loans	-	-	45 367	26 848	109 830	839 076	1 021 121
Total	6 622 965	263 401	226 546	112 151	811 064	1 716 488	9 752 615

(in PLN '000)

Both as at 31 December 2013 and 31 December 2012 the fair value of loans did not differ substantially from their carrying amount.

Loans as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Total
Debt securities	2 047 936	15 665	-	-	25 291	2 088 892
Government securities	-	15 665	-	-	14 556	30 221
Fixed rate	-	15 665	-	-	14 556	30 221
Other securities	2 047 936	-	-	-	10 735	2 058 671
Listed on a regular market	-	-	-	-	10 735	10 735
Fixed rate	-	-	-	-	10 735	10 735
Not listed on a regular market	2 047 936	-	-	-	-	2 047 936
Floating rate	2 047 936	-	-	-	-	2 047 936
Other securities, including:	11 836 422	49 892	17 596	13 874	109 861	12 027 645
- buy-sell-back transactions	2 918 343	-	-	-	-	2 918 343
- term deposits with credit institutions	7 205 697	49 805	17 596	13 874	100 035	7 387 007
- deposits with ceding undertakings	-	87	-	-	-	87
- loans	1 712 382	-	-	-	9 826	1 722 208
Loans total	13 884 358	65 557	17 596	13 874	135 152	14 116 537

Loans as at 31 December 2012	PLN	USD	EUR	LTL	UAH	Total
Debt securities	1 722 968	3 206	-	-	22 660	1 748 834
Government securities	-	3 206	-	-	14 090	17 296
Fixed rate	-	3 206	-	-	14 090	17 296
Other securities	1 722 968	-	-	-	8 570	1 731 538
Listed on a regular market	-	-	-	-	8 570	8 570
Fixed rate	-	-	-	-	8 570	8 570
Not listed on a regular market	1 722 968	-	-	-	-	1 722 968
Floating rate	1 722 968	-	-	-	-	1 722 968
Other securities, including:	7 663 550	15 694	251 027	13 069	60 441	8 003 781
- buy-sell-back transactions	2 466 157	-	-	-	-	2 466 157
- term deposits with credit institutions	4 179 143	15 596	250 796	13 069	57 570	4 516 174
- deposits with ceding undertakings	-	98	231	-	-	329
- loans	1 018 250	-	-	-	2 871	1 021 121
Loans total	9 386 518	18 900	251 027	13 069	83 101	9 752 615

Other loans

Type of loan	31 December 2013	31 December 2012
Mortgage loans	-	26 848
Loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral	1 712 382	991 402
Not collateralized loans	9 826	2 871
Total	1 722 208	1 021 121

14.5 Exposure to debt securities issued by treasuries other than Polish treasury, companies and local government authorities

The table below presents the exposure of the PZU Group companies to bonds issued by treasuries other than the Polish treasury, companies and local government authorities. Financial instruments classified to portfolios held to maturity as well as loans 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 (classified as such both upon initial recognition and held for trading) have been presented as measured at fair value.

14.5.1. Debt securities issued by treasuries other than Polish treasury

As at 31 December 2013	Currency	Classification	Purchase price	Carrying amount	Fair value	Impair- ment loss
Croatia	EUR	At fair value	142	143	143	-
Croatia	USD	At fair value	37 855	36 590	36 590	-
Iceland	USD	At fair value	88 150	84 365	84 365	-
Lithuania	EUR	At fair value	1 888	1 992	1 992	-
Lithuania	LTL	At fair value	3 255	3 351	3 351	-
Lithuania	USD	At fair value	14 354	14 893	14 893	-
Lithuania	EUR	At amortized cost	74 206	75 835	79 247	-
Lithuania	LTL	At amortized cost	81 242	82 012	84 393	-
Latvia	USD	At fair value	35 960	33 737	33 737	-
Germany	EUR	At fair value	129 700	126 939	126 939	-
Romania	EUR	At fair value	367 476	376 748	376 748	-
Romania	RON	At fair value	108 132	108 686	108 686	-
Romania	USD	At fair value	27 985	27 856	27 856	-
Slovenia	EUR	At fair value	370 715	422 048	422 048	-
Slovenia	USD	At fair value	131 869	127 969	127 969	-
Ukraine	USD	At fair value	12 678	10 933	10 933	-
Ukraine	UAH	At amortized cost	25 095	14 556	no data	-
Ukraine	USD	At amortized cost	17 070	15 665	no data	-
Hungary	EUR	At fair value	121 054	131 296	131 296	-
Hungary	EUR	At amortized cost	5 124	5 324	5 420	-
Turkey	TRL	At fair value	45 746	41 963	41 963	-
Other	EUR/USD	At fair value	57 363	59 068	59 068	-
Total			1 757 059	1 801 969	n/a	-

(in PLN '000)

As at 31 December 2012	Currency	Classification	Purchase price	Carrying amount	Fair value	Impair- ment loss
Iceland	USD	At fair value	220 577	227 493	227 493	-
Lithuania	LTL	At amortized cost	57 395	63 981	67 105	-
Lithuania	EUR	At amortized cost	39 989	39 909	43 200	-
Lithuania	LTL	At fair value	15 164	14 980	14 980	-
Lithuania	EUR	At fair value	4 455	4 455	4 455	-
Germany	EUR	At fair value	62 787	59 448	59 448	-
Romania	EUR	At fair value	340 284	344 041	344 041	-
Slovenia	EUR	At fair value	109 990	115 576	115 576	-
Slovenia	USD	At fair value	77 104	81 735	81 735	-
Ukraine	UAH	At amortized cost	17 114	14 090	No data	-
Ukraine	USD	At amortized cost	3 344	3 206	3 294	-
Hungary	EUR	At amortized cost	2 278	2 430	2 459	-
Hungary	CHF	At fair value	8 685	8 613	8 613	-
Hungary	EUR	At fair value	37 319	41 157	41 157	-
Hungary	HUF	At fair value	270 683	264 689	264 689	-
Total			1 267 168	1 285 803	n/a	-

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

14.5.2. Debt securities issued by companies and local government authorities

As at 31 December 2013	Classification	Purchase price	Carrying amount	Fair value	Impair- ment loss
Companies from WIG – Banki	At fair value	138 661	140 340	140 340	-
	At amortized cost	1 336 121	1 349 381	No data	-
Companies from WIG-Paliwa	At fair value	268 489	283 249	283 249	-
	At amortized cost	700 000	700 816	No data	-
Domestic banks not listed	At amortized cost	65 000	66 227	No data	-
Foreign banks	At fair value	552	634	634	-
	At amortized cost	90 548	92 296	No data	-
Local authorities	At fair value	45 632	54 279	54 279	-
	At amortized cost	50 000	52 507	No data	-
Other	At fair value	5 154	5 573	5 573	-
	At amortized cost	23 657	23 835	22 408	-
Other impaired	At fair value	11 630	-	-	11 630
Foreign banks impaired	At amortized cost	1 142	-	-	1 142
Razem		2 736 586	2 769 137	n/a	12 772

(in PLN '000)

As at 31 December 2012	Classification	Purchase price	Carrying amount	Fair value	Impair- ment loss
Companies from WIG – Banki	At fair value	161 653	163 261	163 261	-
	At amortized cost	954 838	971 931	No data	-
Companies from WIG-Paliwa	At fair value	259 390	275 928	275 928	-
	At amortized cost	700 000	701 234	No data	-
Domestic banks not listed	At amortized cost	65 000	66 866	No data	-
Foreign banks	At fair value	102	142	142	-
	At amortized cost	86 936	87 248	No data	-
Local authorities	At fair value	45 632	53 010	53 010	-
	At amortized cost	50 000	52 509	54 398	-
Other	At amortized cost	62 805	63 024	No data	-
Other impaired	At fair value	11 630	-	-	11 630
Total		2 397 986	2 435 153	n/a	11 630

15. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	31 December 2013	31 December 2012
Receivables from direct insurance, including:	1 384 325	1 368 993
- receivables from policyholders	1 245 337	1 193 159
- receivables from insurance intermediaries	113 941	139 418
- other receivables	25 047	36 416
Receivables from reinsurance	18 828	15 099
Other receivables	1 261 833	451 701
Net receivables, including under insurance contracts	2 664 986	1 835 793

Both as at 31 December 2011 and 31 December 2010 the fair value of receivables did not differ substantially from their carrying amount.

Receivables, including under insurance contracts – by contractual maturity	31 December 2013	31 December 2012
Up to 1 year	2 575 923	1 804 187
Over 1 year and up to 5 years	87 813	29 513
Over 5 years	1 250	2 093
Receivables, including under insurance contracts – by contractual maturity	2 664 986	1 835 793

(in PLN '000)

Receivables, including those under insurance contracts, by currencies as at 31 December 2013	PLN	USD	EUR	LTL	UAH	Other	Total
Receivables from direct insurance	1 330 874	1	1 335	32 379	18 872	864	1 384 325
Receivables from policyholders	1 194 600	1	1 028	30 630	18 847	231	1 245 337
Receivables from insurance intermediaries	111 305	-	307	1 671	25	633	113 941
Other receivables	24 969	-	-	78	-	-	25 047
Receivables from reinsurance	16 682	944	1 182	-	20	-	18 828
Other receivables	1 099 043	70 966	76 929	334	878	13 683	1 261 833
Total receivables, including under insurance contracts, by currencies	2 446 599	71 911	79 446	32 713	19 770	14 547	2 664 986

Receivables, including those under insurance contracts, by currencies as at 31 December 2012	PLN	USD	EUR	LTL	UAH	Total
Receivables from direct insurance	1 325 223	-	-	25 673	18 097	1 368 993
Receivables from policyholders	1 151 009	-	-	24 308	17 842	1 193 159
Receivables from insurance intermediaries	137 798	-	-	1 365	255	139 418
Other receivables	36 416	-	-	-	-	36 416
Receivables from reinsurance	12 906	905	1 214	-	74	15 099
Other receivables	425 893	5 786	18 164	559	1 299	451 701
Total receivables, including under insurance contracts, by currencies	1 764 022	6 691	19 378	26 232	19 470	1 835 793

15.1 Other receivables

Other receivables	31 December 2013	31 December 2012
Receivables from the State Budget, other than due to income tax	86 177	4 946
Receivables from Metro Projekt sp. z o.o.	83 203	98 373
Receivables relating to prevention activities	53 506	56 837
Advance payments	2 428	1 337
Receivables from PZU OPF	2 113	3 454
Receivables from claims handling services	6 351	5 452
Receivables from disposal of securities and collateral deposits	887 264	178 263
Trade receivables	97 646	79 370
Other	43 145	23 669
Total other receivables	1 261 833	451 701

Receivables from Metro Projekt sp. z o.o. and related matters have been described in section 52.7.

15.2 Receivables due to operating leases

Operating leases concern mainly investment property lease agreements.

Future minimum receivables from lease payments	31 December 2013	31 December 2012
Up to 1 year	80 389	13 545
Over 1 year and up to 5 years	225 460	11 478
Over 5 years	94 158	2 341
Total future minimum receivables from lease payments	400 007	27 364

16. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – non-life insurance	31 December 2013	31 December 2012
Provision for unearned premium	209 940	190 865
Provision for unexpired risks	16	5
Provisions for claims outstanding, including:	170 375	304 051
- for claims reported	121 826	234 276
- for claims incurred but not reported (IBNR)	29 989	55 337
- for claims handling costs	18 560	14 438
Provision for capitalized value of annuity claims	146 180	254 413
Provision for bonuses and rebates	8	-
Total reinsurers' share in non-life technical provisions	526 519	749 334

Reinsurers' share in technical provisions – life insurance	31 December 2013	31 December 2012
Provision for unearned premium	86	-
Total reinsurers' share in life technical provisions	86	-

Reinsurers' share in technical provisions by currencies	31 December 2013	31 December 2012
PLN	477 692	575 103
USD	86	-
EUR	19 912	156 392
UAH	28 915	17 839
Total reinsurers' share in technical provisions by currencies	526 605	749 334

(in PLN '000)

Reinsurers' share in technical provisions – non-life insurance	31 December 2013	31 December 2012
Short-term	131 494	170 542
Long-term	395 025	578 792
Total reinsurers' share in non-life technical provisions	526 519	749 334

The total share of reinsurers in life insurance is classified as a short-term share.

(in PLN '000)

17. Impairment of financial assets and receivables

Changes in impairment losses on financial assets in the year ended 31 December 2013	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (sale etc.)	Exchange differences	Change in composition of the group	Impairment losses – closing balance
Financial assets available for sale	164 273	110	-	(9 429)	(55)	-	154 899
- equity instruments	164 273	110	-	(9 429)	(55)	-	154 899
Financial assets held to maturity	-	-	-	-	(19)	1 221	1 202
- debt instruments	-	-	-	-	(19)	1 221	1 202
Loans	24 582	-	-	-	143	-	24 725
Term deposits with credit institutions	9 657	-	-	-	140	-	9 797
Loans	14 925	-	-	-	3	-	14 928
Receivables, including under insurance contracts	606 747	58 572	(11 900)	(3 342)	(229)	1 731	651 579
Receivables from direct insurance	568 127	40 847	(10 111)	(2 687)	(182)	1 614	597 608
Receivables from reinsurance	3 959	1 220	(438)	(122)	-	-	4 619
Other receivables	34 661	16 505	(1 351)	(533)	(47)	117	49 352
Reinsurers' share in technical provisions	8 037	1 348	(4 557)	-	-	-	4 828
Total	803 639	60 030	(16 457)	(12 771)	(160)	2 952	837 233



(in PLN '000)

Changes in impairment losses on financial assets in the year ended 31 December 2012	Impairment losses – opening balance	Impairment losses recognized in the income statement	Release of impairment losses recognized in the income statement	Derecognition of impairment losses from the accounting records (sale etc.)	Exchange differences	Impairment losses – closing balance
Financial assets available for sale	253 372	14 915	-	(103 814)	(200)	164 273
- equity instruments	253 372	14 915	-	(103 814)	(200)	164 273
Loans	28 770	-	-	(3 400)	(788)	24 582
Term deposits with credit institutions	10 434	-	-	-	(777)	9 657
Loans	18 336	-	-	(3 400)	(11)	14 925
Receivables, including under insurance contracts	581 209	96 860	(42 614)	(27 581)	(1 127)	606 747
Receivables from direct insurance	512 855	95 693	(37 340)	(2 160)	(921)	568 127
Receivables from reinsurance	4 848	89	(862)	(116)	-	3 959
Other receivables	63 506	1 078	(4 412)	(25 305)	(206)	34 661
Reinsurers' share in technical provisions	18 613	12 064	(22 640)	-	-	8 037
Total	881 964	123 839	(65 254)	(134 795)	(2 115)	803 639

(in PLN '000)

Credit quality of financial assets as at 31 December 2013	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized collective	
Financial assets held to maturity	-	18 859 902	-	-	-	18 859 902	1 202	-	18 861 104
Debt securities	-	18 859 902	-	-	-	18 859 902	1 202	-	18 861 104
Financial assets available for sale	-	1 511 157	-	-	-	1 511 157	-	-	1 511 157
Debt securities	-	1 511 157	-	-	-	1 511 157	-	-	1 511 157
Loans	-	14 116 537	-	-	-	14 116 537	24 725	-	14 141 262
Debt securities	-	2 088 892	-	-	-	2 088 892	-	-	2 088 892
Reverse repo transactions	-	2 918 343	-	-	-	2 918 343	-	-	2 918 343
Term deposits with credit institutions	-	7 387 007	-	-	-	7 387 007	9 797	-	7 396 804
Deposits with ceding undertakings	-	87	-	-	-	87	-	-	87
Loans	-	1 722 208	-	-	-	1 722 208	14 928	-	1 737 136
Receivables, including under insurance contracts	215 334	2 057 560	148 616	27 267	216 209	2 664 986	90 974	560 605	3 316 565
Receivables from direct insurance	207 110	893 232	145 401	25 953	112 629	1 384 325	37 114	560 494	1 981 933
Receivables from reinsurance	1 107	17 692	-	-	29	18 828	4 619	-	23 447
Other receivables	7 117	1 146 636	3 215	1 314	103 551 ¹⁾	1 261 833	49 241	111	1 311 185
Reinsurers' share in technical provisions	38 870	487 735	-	-	-	526 605	4 828	-	531 433
Total	254 204	37 032 891	148 616	27 267	216 209	37 679 187	121 729	560 605	38 361 521

¹⁾ including PLN 83,203 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in section 52.7 of the notes.

(in PLN '000)

Credit quality of financial assets as at 31 December 2012	Net carrying amount of assets that are not past due		Net carrying amount of assets that are past due			Net carrying amount	Impairment losses		Gross value
	impaired	not impaired	up to 3 months	over 3 months and up to 6 months	over 6 months		recognized for individual assets	recognized for asset classes	
Financial assets held to maturity	-	21 117 559	-	-	-	21 117 559	-	-	21 117 559
Debt securities	-	21 117 559	-	-	-	21 117 559	-	-	21 117 559
Financial assets available for sale	-	1 998 016	-	-	-	1 998 016	-	-	1 998 016
Debt securities	-	1 998 016	-	-	-	1 998 016	-	-	1 998 016
Loans	-	9 752 615	-	-	-	9 752 615	24 582	-	9 777 197
Debt securities	-	1 748 834	-	-	-	1 748 834	-	-	1 748 834
Reverse repo transactions	-	2 466 157	-	-	-	2 466 157	-	-	2 466 157
Term deposits with credit institutions	-	4 516 174	-	-	-	4 516 174	9 657	-	4 525 831
Deposits with ceding undertakings	-	329	-	-	-	329	-	-	329
Loans	-	1 021 121	-	-	-	1 021 121	14 925	-	1 036 046
Receivables, including under insurance contracts	204 639	1 220 702	81 082	63 243	266 127	1 835 793	77 146	529 601	2 442 540
Receivables from direct insurance	195 265	887 100	77 293	62 183	147 152	1 368 993	38 526	529 601	1 937 120
Receivables from reinsurance	2 330	12 709	-	-	60	15 099	3 959	-	19 058
Other receivables	7 044	320 893	3 789	1 060	118 915 ¹⁾	451 701	34 661	-	486 362
Reinsurers' share in technical provisions	67 298	682 036	-	-	-	749 334	8 037	-	757 371
Total	271 937	34 770 928	81 082	63 243	266 127	35 453 317	109 765	529 601	36 092 683

¹⁾ including PLN 98,373 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in section 52.7 of the notes.

18. Estimated recoveries and recourses

Estimated recoveries and recourses	31 December 2013	31 December 2012
Estimated recourses	128 524	120 373
Estimated recoveries	1 426	1 259
Total	129 950	121 632

Estimated recoveries and recourses	31 December 2013	31 December 2012
Short-term	55 369	64 101
Long-term	74 581	57 531
Total	129 950	121 632

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

19. Deferred tax assets

Changes in deferred tax asset in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Change in composition of the group	Exchange differences	Other	Closing balance
Financial Instruments	(3 216)	400	334	(23)	3 033	528
Receivables	459	(186)	65	4	-	342
Properties	-	2 689	-	-	-	2 689
Provisions for jubilee bonuses, retirement severance pay etc.	78	(3)	-	-	-	75
Provision for bonuses and appropriation to the bonus fund	288	108	-	-	-	396
Provision for paid vacation	60	(6)	2	(2)	-	54
Other provisions and liabilities	3 564	(101)	58	(37)	-	3 484
Tax losses to be used in future periods	4 508	(3 845)	15	-	7	685
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 679	(273)	-	-	-	1 406
Tax allowance regarding operations in the special economic zone	6 543	725	-	-	-	7 268
Other	-	19	4	(1)	-	22
Total deferred tax assets	13 963	(473)	478	(59)	3 040	16 949

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna
Consolidated financial statements in accordance with IFRS for the financial year ended 31 December 2013

(in PLN '000)

Changes in deferred tax assets in the year ended 31 December 2012	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehensive income	Exchange differences	Reclassification to deferred tax liability ¹⁾	Closing balance
Financial Instruments	(1 069)	(169)	(1 993)	15	-	(3 216)
Receivables	422	36	-	1	-	459
Properties	(7 984)	142	-	-	7 842	-
Provisions for jubilee bonuses, retirement severance pay etc.	459	(42)	-	-	(339)	78
Provision for bonuses and appropriation to the bonus fund	771	830	-	-	(1 313)	288
Provision for paid vacation	58	8	-	(6)	-	60
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	314	7	-	-	(321)	-
Financial Instruments	3 584	711	-	(146)	(585)	3 564
Tax losses to be used in future periods	10 476	(5 968)	-	-	-	4 508
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 569	110	-	-	-	1 679
Tax allowance regarding operations in the special economic zone	-	6 543	-	-	-	6 543
Total deferred tax asset	8 600	2 208	(1 993)	(136)	5 284	13 963

¹⁾ On 27 September 2011, nine PZU Group companies signed an agreement establishing the Tax Capital Group (the "TCG") in accordance with the Corporate Income Tax Act of 15 February 1992 (uniform text - Journal of Laws No. 74 of 2011, item 397, as amended; the "CIT Act"). The nine companies were PZU, PZU Życie, TFI PZU, PZU AM, PZU CO, PZU Pomoc SA, Ipsilon BIS SA, Ogrodowa-Inwestycje Sp. z o.o., Ipsilon Sp. z o.o. The TCG has been established for three years from 1 January 2012 to 31 December 2014. As a consequence the deferred tax assets and provisions of all the consolidated companies in the CTG were netted.

Unrecognized deferred tax asset related to tax losses which, as at 31 December 2013, were as follows:

- PZU Lietuva: PLN 75,476 thousand (as at 31 December 2012: PLN 73,150 thousand);
- PZU Lietuva Gyvybes Draudimas: PLN 12,109 thousand.

These losses can be realized at a time that is not prescribed by the provisions of law.

20. Current income tax receivables

Current income tax receivables	31 December 2013	31 December 2012
Short-term	34 895	80 646
Long-term	-	-
Total current income tax receivables	34 895	80 646

21. Deferred acquisition costs

Deferred acquisition costs	31 December 2013	31 December 2012
Short-term	548 857	512 890
Long-term	60 962	61 599
Total deferred acquisition costs	609 819	574 489

21.1 Deferred acquisition costs – non-life insurance

Changes in deferred acquisition costs in non-life insurance	1 January – 31 December 2013	1 January – 31 December 2012
Net value – opening balance	512 890	504 458
Deferred acquisition costs	571 978	538 880
Amortization for the period	(538 131)	(529 086)
Exchange differences	(261)	(1 362)
Net value – closing balance	546 476	512 890

21.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2013	1 January – 31 December 2012
Net value – opening balance	61 599	65 385
Deferred acquisition costs	3 367	-
Amortization for the period	(4 719)	(3 786)
Change in composition of the group	3 156	-
Exchange differences	(60)	-
Net value – closing balance	63 343	61 599

22. Other assets

Other assets	31 December 2013	31 December 2012
Prepayments relating to reinsurance	63 272	54 335
IT expenses	18 202	11 274
Inventories:	93 240	80 214
- materials	39 572	36 026
- products and goods	53 422	43 801
- claim recoveries	246	387
Other assets	20 735	32 823
Total other assets	195 449	178 646

(in PLN '000)

Other assets	31 December 2013	31 December 2012
Short-term	192 664	175 251
Long-term	2 785	3 395
Total other assets	195 449	178 646

Inventories

Inventories (other information)	31 December 2013	31 December 2012
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	246	409
Book value of inventories pledged as security for liabilities	19 800	39 600

In 2013 the companies in the PZU Group recognized a reverseal of impairment loss on the inventories of PLN 150 thousand (in 2012 recognition of impairment loss of PLN 498 thousand).

23. Cash and cash equivalents

Structure of cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	31 December 2013	31 December 2012
Cash in hand and at bank	545 873	126 440
Other cash	2 393	10 146
Total cash and cash equivalents disclosed in the statement of financial position and in the statement of cash flows	548 266	136 586

Additional information to the consolidated cash flow statement

The consolidated cash flow statement includes cash of limited disposability concerning:

- Prevention Funds – pursuant to Polish laws and the internal regulations adopted by the PZU Group companies on their basis, such funds may be used for strictly specified purposes relating to prevention activities only and provided that full control is exercised over such funds in prevention activities;
- cash relating to the “Autowypłata” service provided by Bank Pekao SA and consisting in freezing cash in the bank account up to the amount of claim to be paid out, previously registered in the e-banking system.

24. Assets held for sale

Assets held for sale before reclassification	31 December 2013	31 December 2012
Property, plant and equipment	55 786	42 492
Investment property	123 111	4 470
Total assets held for sale before reclassification	178 897	46 962

Property, plant and equipment include mainly real property, technical equipment and machinery previously used by Armatura Group for own purposes, in the amount of PLN 37,407 thousand (as at 31 December 2012: PLN 41.821 thousand).

“Investment property” presents property held by PZU and PZU Życie for sale as part of the portfolio optimization project.

25. Issued share capital and other equity attributable to the shareholders of the parent

25.1 Share capital

All shares are fully paid.

As at 31 December 2013

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue (in PLN)	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	none	4 011	4 011	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	none	60 442 309	60 442 309	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	none	25 905 980	25 905 980	contribution in kind	31.03.1999	01.01.1999
Total numer of shares				86 352 300				
Total share capital					86 352 300			

As at 31 December 2012

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue (in PLN)	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	none	7 602	7 602	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	none	60 438 718	60 438 718	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	none	25 905 980	25 905 980	contribution in kind	31.03.1999	01.01.1999
Total numer of shares				86 352 300				
Total share capital					86 352 300			

25.1.1. Shareholders of PZU

Table below presents PZU's shareholders structure including shareholders holding at least 5% of the votes at the Shareholders' Meeting:

As at 31 December 2013

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	30 385 253	35.1875%
2	Other shareholders	55 967 047	64.8125%
Total		86 352 300	100,00%

As at 31 December 2012

No.	Shareholder's name	Number of shares and votes at the Shareholders' Meeting	Percentage of votes at the Shareholders' Meeting
1	State Treasury	30 385 253	35.1875%
2	Other shareholders	55 967 047	64.8125%
Total		86 352 300	100,0000%

25.1.2. Transactions involving significant packages of PZU shares

Between 1 January 2013 and the date of signing these consolidated financial statements, as a result of WSE transactions, ING Otworthy Fundusz Emerytalny (the "ING Fund") first increased and then reduced the number of PZU shares held below the level of 5% of votes at the general meeting. Information concerning the aforesaid transactions was presented in the current reports of PZU (dated 7 February 2013 and 6 June 2013, respectively).

25.1.3. Highest-level parent company of PZU

As at 31 December 2013 the State Treasury of the Republic of Poland (the "State Treasury") held 35.1875% of PZU shares giving the right to 35.1875% of votes at the Shareholders' Meeting. Therefore, there was no higher-level parent company of PZU drawing up its consolidated financial statements.

25.1.4. Distribution of profit of the parent company

As regards the distributable profit for 2013 and the preceding years, only the profit disclosed in the separate financial statements of the parent company, drawn up in accordance with the Polish Accounting Standards, is subject to distribution.

25.1.4.1. Distribution of profit for 2012

On 23 May 2013, the General Shareholders' Meeting of PZU decided on distribution of the net profit for 2012 in the amount of PLN 2,580,720 thousand in the following manner:

- PLN 2,564,663 thousand for dividend paid to shareholders, i.e. PLN 29.70 per share;
- PLN 6,057 thousand thousand for supplementary capital;
- PLN 10,000 thousand to the Company's Social Benefits Fund.

The cum dividend date was determined at 23 August 2013, and the dividend payment date at 12 September 2013.

Proceedings against PZU concerning revocation of resolutions on distribution of PZU's profit for the 2006 financial year have been presented in detail in Section 52.1.

25.1.4.2. Interim dividend for 2013

On 26 August 2013, the Management Board of PZU adopted a resolution concerning payment of interim dividend for 2013 in the amount of PLN 1,727,046 thousand, i.e. PLN 20.00 per share, in accordance with Article 349 of the Code of Commercial Companies, from the profit generated for the period of 6 months ended 30 June 2013 in the amount of PLN 4,679,913 thousand, as per the separate financial statements of PZU prepared for the aforesaid period in compliance with PAS.

On the same day, the Supervisory Board granted their consent for payment of the aforementioned interim dividend. The record date was set as 12 November 2013 and the payment date – as 19 November 2013.

25.1.4.3. Distribution of profit for 2013

By the date of signing these consolidated financial statements, the Management Board of PZU has not adopted a resolution on distribution of profit for 2013.

25.2 Revaluation reserve

Revaluation reserve	31 December 2013	31 December 2012
Revaluation of financial instruments available for sale	118 832	238 961
Reclassification of real property from property, plant and equipment to investment property	123 512	124 281
Revaluation reserve total	242 344	363 242

Changes in revaluation reserve due to revaluation of financial instruments available for sale	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	238 961	161 307
Changes	(120 129)	77 654
- change in fair value	174 945	502 017
- impairment losses	-	14 546
- sale	(295 074)	(438 909)
Closing balance	118 832	238 961

25.3 Exchange differences from translation

Exchange differences from translation	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	(38 004)	(32 263)
Changes relating to subsidiaries	267	(5 741)
Closing balance	(37 737)	(38 004)

26. Technical provisions

26.1 Technical provisions – non-life insurance

Technical provisions – non-life insurance	31 December 2013	31 December 2012
Provision for unearned premiums	4 428 845	4 435 516
Provision for unexpired risks	8 770	8 202
Provisions for claims outstanding	6 041 030	5 362 089
Provision for capitalized value of annuity claims	5 761 332	5 660 281
Provisions for bonuses and rebates for the insured	2 277	2 812
Total technical provisions	16 242 254	15 468 900

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2013	31 December 2012
Accident and sickness insurance (class 1 and 2)	383 967	376 993
TPL motor insurance (class 10)	10 452 238	9 856 594
Other motor insurance (class 3)	1 664 589	1 675 657
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	70 633	79 854
Insurance against fire and other damage to property (classes 8 and 9)	1 377 179	1 237 683
TPL insurance (classes 11, 12, 13)	1 947 727	1 761 286
Credit insurance and suretyship (classes 14, 15)	135 806	262 911
Assistance (class 18)	121 669	116 033
Legal protection (class 17)	2 627	2 242
Other (class 16)	85 819	99 647
Total technical provisions	16 242 254	15 468 900

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2013	31 December 2012
Accident and sickness insurance (class 1 and 2)	383 795	383 725
TPL motor insurance (class 10)	10 246 315	9 476 320
Other motor insurance (class 3)	1 635 612	1 650 199
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	59 173	66 252
Insurance against fire and other damage to property (classes 8 and 9)	1 230 550	1 117 034
TPL insurance (classes 11, 12, 13)	1 896 918	1 705 981
Credit insurance and suretyship (classes 14, 15)	86 202	141 968
Assistance (class 18)	121 126	115 482
Legal protection (class 17)	2 627	2 242
Other (class 16)	53 417	60 363
Total technical provisions	15 715 735	14 719 566

Technical provisions – non-life insurance	31 December 2013	31 December 2012
Short-term	3 245 725	3 252 782
Long-term	12 996 529	12 216 118
Total technical provisions	16 242 254	15 468 900

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

26.2 Technical provisions – life insurance

Technical provisions - life insurance	31 December 2013	31 December 2012
Provision for unearned premiums	102 396	93 449
Life insurance provision	16 048 191	15 675 243
Provisions for claims outstanding	545 751	516 356
Provisions for bonuses and rebates for the insured	616	1 415
Other technical provisions	477 987	531 617
Provision for unit-linked insurance	3 907 221	3 113 798
Total technical provisions	21 082 162	19 931 878

The table above presents also the amounts of provisions recognized for the old portfolio (as described in Section 4.4), which are as follows:

Technical provisions – old portfolio	31 December 2013	31 December 2012
Life insurance provision	485 757	501 766
Other technical provisions	199 699	215 735
IBNR and RBNP provisions	2 873	4 579
Total technical provisions – old portfolio	688 329	722 080

27. Investment contracts

Investment contracts – carrying amount	31 December 2013	31 December 2012
Investment contracts with guaranteed and fixed terms and conditions	1 250 492	1 297 224
- measured at amortized cost	1 250 492	1 297 224
Unit linked investment contracts	870 545	1 001 923
Total investment contracts – carrying amount	2 121 037	2 299 147

Upon initial recognition, unit-linked investment contracts were designated as financial liabilities measured at fair value through profit or loss.

The fair value of liabilities under investment contracts with guaranteed and fixed terms and conditions does not differ substantially from the carrying amount.

Financial assets related to investment contracts:

- with guaranteed and fixed terms – bank deposits presented as “Loans – term deposits with credit institutions” (Section 14.4) or treasury bonds classified mainly as held to maturity;
- unit-linked – include mainly units in investment funds, recognized as “Financial instruments measured at fair value through profit or loss – held for trading – equity instruments – not quoted on a regulated market”, derivatives recognized as “Financial instruments measured at fair value through profit or loss – held for trading – derivatives” (presented in Section 14.3) and bank deposits.

28. Provisions for employee benefits

Due to the adopted accounting principles and the fact that the PZU Group companies did not separate defined benefit assets, the carrying amount of defined benefit provisions is equal to the present value of the corresponding liabilities.

The actuarial assumptions used for the purpose of estimating provisions for employee benefits have been presented in Section 4.8.

Provisions for employee benefits	31 December 2013	31 December 2012
Provision for unused annual leave	60 094	46 658
Post-employment benefits	31 365	28 605
- defined benefit plans	12 141	12 145
- provisions for retirement severance pay	19 224	16 460
- provisions for death benefits	31 921	32 044
Other long-term employee benefits	-	1 191
- other ¹⁾	31 921	30 853
Total provisions for employee benefits	123 380	107 307

¹⁾ This item includes mainly a provision for post-employment social benefits, as referred to in Section 3.19.3.

Net revenue and expenses recognized in profit or loss and related to provisions for employee benefits	1 January - 31 December 2013	1 January - 31 December 2012
Net revenue (expenses) recognized in profit or loss	(4 574)	176 705
Defined benefit plans	(5 700)	67 043
- provisions for retirement benefits	(2 654)	68 770
- provisions for death benefits	(3 046)	(1 727)
Other long-term employee benefits	1 126	109 662
- provisions for jubilee bonuses	1 191	109 516
- other	(65)	146
Net revenue (expenses) recognized in other comprehensive income	902	-
Defined benefit plans	902	-
- provisions for retirement benefits	862	-
- provisions for death benefits	40	-
Total net revenue and expenses recognized in profit or loss and related to provisions for employee benefits	(3 672)	176 705

28.1 Provisions for retirement benefits

Change in the balance of provision for retirement benefits	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	12 145	93 832
Changes recognized in profit or loss	2 654	(68 770)
- current service cost	1 084	3 113
- past service cost	440	(64 225)
- interest income or expense	1 130	1 974
- actuarial gains and (losses) recognized in the period	nd. ¹⁾	(9 632)
Remeasurement of provision (changes recognized in other comprehensive income)	(862)	n/a
- actuarial gains and losses resulting from changes in demographic assumptions	113	n/a
- actuarial gains and losses resulting from changes in financial assumptions	(975)	n/a
Benefits paid	(1 806)	(12 917)
Change in composition of the group	10	-
Closing balance	12 141	12 145

¹⁾ Following revision of IAS 19, effective from 2013 actuarial gains and losses are presented in other comprehensive income and not in profit or loss (as it was in 2012).

Total expected cash flows from retirement benefits since the end of the reporting period	
Up to 3 months	64
Over 3 months and up to 1 year	494
Over 1 year and up to 5 years	3 040
Over 5 years	65 092
Total	68 690

28.2 Provisions for death benefits

Change in the balance of provision for death benefits	1 January - 31 December 2013	1 January - 31 December 2012
Opening balance	16 460	14 829
Changes recognized in profit or loss	3 046	1 727
- current service cost	1 369	1 392
- past service cost	1 334	14
- interest income or expense	343	268
- actuarial gains and losses recognized in the period	n/a ¹⁾	53
Remeasurement of provision (changes recognized in other comprehensive income)	(40)	n/a
- actuarial gains and losses resulting from changes in demographic assumptions	896	n/a
- actuarial gains and losses resulting from changes in financial assumptions	(936)	n/a
Benefits paid	(242)	(96)
Closing balance	19 224	16 460

¹⁾ Following revision of IAS 19, effective from 2013 actuarial gains and losses are presented in other comprehensive income and not in profit or loss (as it was in 2012).

Total expected cash flows from death benefits since the end of the reporting period	
Up to 3 months	56
Over 3 months and up to 1 year	957
Over 1 year and up to 5 years	5 798
Over 5 years	76 972
Total	83 783

29. Other provisions

Changes in other provisions in the year ended 31 December 2013	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring expenses	58 194	-	(39 568)	(18 626)	-
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	2 687	388	-	-	3 075
Provision for the Office of Competition and Consumer Protection penalties	138 310	-	(5 613)	(13 148)	119 549
Provision for exit costs of the GraphTalk project	49 925	1 483	-	(464)	50 944
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8 836	477	(329)	(1 583)	7 401
Other	8 588	6 688	(103)	(4 152)	11 021
Other provisions total	267 456	9 036	(45 613)	(37 973)	192 906

Changes in other provisions in the year ended 31 December 2012	Opening balance	Increases	Application	Release	Closing balance
Provision for restructuring expenses 2012	112 956	-	(75 862)	(27 253)	9 841
Provision for restructuring expenses 2013	-	48 353	-	-	48 353
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	4 019	352	-	(1 684)	2 687
Provision for the Office of Competition and Consumer Protection penalties	137 035	1 275	-	-	138 310
Provision for exit costs of the GraphTalk project	50 349	628	-	(1 052)	49 925
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	8 095	1 562	(821)	-	8 836
Other	8 693	6 367	(1 217)	(5 255)	8 588
Other provisions total	322 063	58 537	(77 900)	(35 244)	267 456

Other provisions	31 December 2013	31 December 2012
Short-term	177 307	252 310
Long-term	15 599	15 146
Other provisions total	192 906	267 456

Position „Provision for the Office of Competition and Consumer Protection penalties” are described in section 52.2 and 52.3.

Provisions for restructuring expenses are described in section 55.5.

Provision for the GraphTalk project exit costs at PZU Życie

The total “Provision for the GraphTalk project exit costs” includes the provision created for the costs of closing the IT GraphTalk project.

The aforementioned provision is created on the basis of estimated expenditures required to complete the GraphTalk project, indicating the risk of non-achievement of the project goals and the expected economic benefits. Additionally the provisions amount includes estimation of costs of litigation with CSC Computer Sciences Sp. z o.o. – the issue is described section 52.4.

Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution

A detailed method for determining and settlement of undue premiums to be returned is regulated in Article 100a of the Act on organization and operation of pension funds of 28 August 1997 (Journal of Laws of 2013 item 989 as amended) pursuant to which if premiums unduly received are returned, the nominal amount of the service fee collected by the society managing a given fund should be returned to the Social Insurance Institution too.

Since 2008, PTE PZU has been recognizing a provision for reimbursement of handling fees related to excess premiums paid by the Social Insurance Institution in previous periods. The estimation of the value of the provision is based on the information provided by the Social Insurance Institution regarding premiums for 1999 – 2013 and the service fee on the premium collected by PTE PZU less the fee reducing the premiums transferred by the Social Insurance Institution.

The reimbursement date of the handling fees collected may not be determined as by the date of signing these consolidated financial statements the Social Insurance Institution had not provided all the information required to calculate the value of the accounting units subject to withdrawal from the individual accounts of OFE PZU members.

30. Deferred tax liability

Changes in deferred tax liability in the year ended 31 December 2013	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehensive income	Changes in the consolidation scope	Other changes	Closing balance
Financial instruments	358 165	(68 666)	(42 802)	(544)	759	246 912
Recourse receivables	(3 706)	1 307	-	-	-	(2 399)
Real property	29 609	(18 394)	3 185	(1 129)	-	13 271
Deferred acquisition costs	110 752	(46)	-	-	-	110 706
Accrued revenue and reinsurance costs	(21 208)	1 176	-	-	-	(20 032)
Provisions for jubilee bonuses, retirement severance pay etc.	(13 856)	(444)	-	-	-	(14 300)
Provision for bonuses and appropriation to the bonus fund	(41 488)	1 663	-	(1 374)	-	(41 199)
Provisions for employee vacation	(5 680)	(1 385)	-	(134)	-	(7 199)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(41 074)	(11 307)	-	(8)	-	(52 389)
Other provisions and accruals	(107 977)	(864)	-	733	-	(108 108)
Prevention Fund	15 326	16 071	-	-	-	31 397
Equalization reserve	110 915	1 201	-	-	-	112 116
Other differences	(32 221)	19 018	-	(246)	72	(13 377)
Total deferred tax liability	357 557	(60 670)	(39 617)	(2 702)	831	255 399

(in PLN '000)

Changes in deferred tax liability in the year ended 31 December 2012	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehensive income	Reclassification from deferred tax assets	Closing balance
Financial instruments	66 546	271 561	20 058	-	358 165
Recourse receivables	(6 982)	3 276	-	-	(3 706)
Real property	12 560	5 256	3 951	7 842	29 609
Deferred acquisition costs	105 999	4 753	-	-	110 752
Deferred acquisition costs relating to PZU OPF	(917)	1 986	-	-	1 069
Accrued revenue and reinsurance costs	(10 771)	(10 437)	-	-	(21 208)
Provisions for jubilee bonuses, retirement severance pay etc.	(50 169)	36 652	-	(339)	(13 856)
Provision for bonuses and appropriation to the bonus fund	(40 859)	684	-	(1 313)	(41 488)
Provisions for employee vacation	(5 000)	(680)	-	-	(5 680)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(35 802)	(4 950)	-	(322)	(41 074)
Other provisions and accruals	(95 468)	(11 924)	-	(585)	(107 977)
Prevention Fund	13 103	2 223	-	-	15 326
Equalization reserve	111 872	(957)	-	-	110 915
Life insurance technical provisions	76 434	(76 434)	-	-	-
Provision for restructuring expenses	(21 462)	10 405	-	-	(11 057)
Other differences	(9 368)	(12 865)	-	-	(22 233)
Total deferred tax liability	109 716	218 549	24 009	5 283	357 557

Offsetting of deferred tax assets and liabilities in companies included in TCG is described in section 19.

31. Current income tax liabilities

As at 31 December 2013 and 31 December 2012 all current income tax liabilities were short-term.

32. Other liabilities

Other liabilities	31 December 2013	31 December 2012
Accrued expenses	638 382	625 892
Accrued costs of agency commissions	209 871	194 341
Accrued payroll costs	121 415	128 296
Accrued costs of reinsurance	194 079	172 246
Accrued employee bonuses	84 064	102 403
Other	28 953	28 606
Deferred income	17 738	10 420
Other liabilities	8 270 255	2 420 155
Liabilities due to direct insurance	634 831	649 023
Liabilities due to reinsurance	53 738	54 470
Liabilities from sell-buy-back transactions	5 124 161	839 969
Liabilities from credits and loans	227 353	166 276
Liabilities to participants in the consolidated investment funds	267 335	-
Liabilities to the State Treasury, other than income tax	147 721	19 407
Public law obligations: Social Insurance Institution, PFRON, Company's Social Benefits Fund and other	23 195	21 234
Liabilities to employees	3 481	2 995
Insurance Guarantee Fund	10 231	7 373
Due to acquired securities and margin deposits	1 528 953	438 840
Dividend liabilities to PZU shareholders	3 321	3 453
Trade payables to suppliers	69 273	72 092
Estimated non-insurance liabilities ¹⁾	125 673	108 694
Other	50 989	36 329
Total other liabilities	8 926 375	3 056 467

As at 31 December 2013 and 31 December 2012 the fair value of other liabilities did not differ substantially from their carrying amount.

Liabilities by contractual maturity	31 December 2013	31 December 2012
Up to 1 year	8 498 477	3 047 393
Over 1 year and up to 5 years	158 458	6 785
Over 5 years	269 440	2 289
Total liabilities by contractual maturity	8 926 375	3 056 467

32.1 Liabilities due to direct insurance

Liabilities due to direct insurance	31 December 2013	31 December 2012
Liabilities to policyholders	368 130	352 144
Liabilities to insurance intermediaries	164 948	149 608
Other insurance liabilities	101 753	147 271
Total liabilities due to direct insurance	634 831	649 023

32.2 Liabilities due to reinsurance

Liabilities due to reinsurance	31 December 2013	31 December 2012
Liabilities due to inward reinsurance	9 277	458
Liabilities due to outward reinsurance	43 184	54 012
Liabilities due to retrocession	1 277	-
Total liabilities due to reinsurance	53 738	54 470

32.3 Liabilities due to sell-buy-back transactions

The transactions were secured with treasury bonds, described in section 50.1.

The basic characteristic of sell-buy-back transactions as at 31 December 2013 is presented below.

Maturity date	Carrying amount	Currency	Carrying amount of collateral	Collateral	Quantity
up to 1 month	4 615 971	PLN	4 615 396	State Treasury bonds	4 592 800
up to 2 months	401 215	PLN	401 030	State Treasury bonds	426 220
up to 3 months	106 975	PLN	107 564	State Treasury bonds	100 000
Total	5 124 161		5 123 990		5 119 020

32.4 Operating lease liabilities

The majority of operating lease liabilities result from rental of retail and office space. The current policy provides for agreements concluded for a limited period of 3 or 5 years with an option of extension.

Liabilities due to minimum operating lease payments	31 December 2013	31 December 2012
Up to 1 year	27 040	35 885
Over 1 year and up to 5 years	43 152	54 199
Over 5 years	5 792	11 577
Total liabilities due to minimum operating lease payments	75 984	101 661

Operating lease charges presented in profit or loss for the period	1 January - 31 December 2013	1 January - 31 December 2012
Minimum operating lease payments	61 088	72 700
Sublease payments	(12)	(68)
Total	61 076	72 632

33. Gross written premium

Gross written premium	1 January - 31 December 2013	1 January - 31 December 2012
Gross written premium – non-life insurance	8 656 694	8 789 154
In direct insurance	8 601 894	8 742 890
In indirect insurance	54 800	46 264
Gross written premium – life insurance	7 823 309	7 453 977
Individual premium	3 303 824	2 962 090
In direct insurance	3 303 824	2 962 090
Group insurance premium	4 519 485	4 491 887
In direct insurance	4 519 485	4 491 887
Gross written premium total	16 480 003	16 243 131

In 2013, life insurance companies (in 2012 – PZU Życie) did not carry out activities involving inward reinsurance.

(in PLN '000)

Gross written premiums in direct non-life insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2013	1 January - 31 December 2012
Accident and sickness insurance (class 1 and 2)	506 727	549 974
TPL motor insurance (class 10)	2 939 343	3 060 007
Other motor insurance (class 3)	2 125 367	2 231 466
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	50 934	58 749
Insurance against fire and other damage to property (classes 8, 9)	1 930 232	1 829 340
TPL insurance (classes 11, 12, 13)	702 963	677 873
Credit insurance and surety ship (classes 14, 15)	49 194	53 483
Assistance (class 18)	214 657	197 361
Legal protection (class 17)	848	800
Other (class 16)	81 629	83 837
Total	8 601 894	8 742 890

Gross written premiums in indirect non-life insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2013	1 January - 31 December 2012
Accident and sickness insurance (class 1 and 2)	46	44
TPL motor insurance (class 10)	98	-
Other motor insurance (class 3)	1 828	(39)
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	7 404	2 511
Insurance against fire and other damage to property (classes 8, 9)	39 446	38 122
TPL insurance (classes 11, 12, 13)	2 401	837
Credit insurance and surety ship (classes 14, 15)	61	-
Other (class 16)	3 516	4 789
Total	54 800	46 264

34. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2013	1 January - 31 December 2012
Pension insurance	217 189	199 165
Commission on handling fees	48 664	36 906
Commission on asset management for open pension fund	168 525	162 259
Investment contracts	18 808	22 000
Revenue from unit-linked investment contract fees	18 808	22 000
Other	83 965	15 937
Revenue and payments received from funds and investment fund management companies	82 854	15 937
Total revenue from commissions and fees	319 962	237 102

35. Net investment income

Net investment income	1 January - 31 December 2013	1 January - 31 December 2012
Interest income, including:	1 696 066	1 970 194
- financial assets available for sale	58 219	298 028
- financial assets held to maturity	1 156 453	1 206 223
- loans	476 906	463 221
- cash and cash equivalents	4 488	2 722
Dividend income, including:	127 135	155 721
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	5 456	145
- financial assets held for trading	74 899	119 817
- financial assets available for sale	46 780	35 759
Income from property investments	120 328	24 728
Exchange differences, including:	5 695	(35 452)
- financial assets held to maturity	1 512	(11 149)
- financial assets available for sale	(503)	(4 516)
- loans	6 489	(14 843)
- receivables, including under insurance contracts	(1 128)	(4 357)
- cash and cash equivalents	(675)	(587)
Other, including:	(104 292)	(68 137)
- costs of investment activities	(42 869)	(56 102)
- investment property maintenance costs	(61 423)	(24 026)
- other	-	11 991
Total net investment income	1 844 932	2 047 054

36. Net profit/loss on realization and impairment loss on investments

Net profit/loss on realization and impairment loss on investments	1 January - 31 December 2013	1 January - 31 December 2012
Net profit/loss on realization of investments	71 827	592 899
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	104 153	184 906
- equity instruments	112 992	12 022
- debt securities	(8 839)	172 884
Financial assets held for trading, including:	16 885	131 588
- equity instruments	75 790	80 789
- debt securities	(41 517)	37 701
- derivatives	(17 388)	13 098
Financial assets available for sale, including:	30 686	425 942
- equity instruments	12 105	174 912
- debt securities	18 581	251 030
Financial assets held to maturity, including:	6 440	2 052
- debt securities held to maturity	6 440	2 052
Loans	(33)	-
Receivables, including under insurance contracts	(98 997)	(151 920)
Investment property	4 430	331
Companies measured using the equity method ¹⁾	8 263	-
Impairment losses	(46 782)	(71 631)
Financial assets available for sale, including:	(110)	(14 915)
- equity instruments	(110)	(14 915)
Receivables, including under insurance contracts	(46 672)	(54 246)
Cash and cash equivalents	-	(2 470)
Total net profit/loss on realization and impairment loss on investments	25 045	521 268

¹⁾ Result on disposal of KGJK, described in section 2.3.4.

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

Net change in the fair value of assets and liabilities measured at fair value	1 January - 31 December 2013	1 January - 31 December 2012
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	203 353	483 812
- equity instruments	49 203	2 665
- debt securities	154 150	481 147
Financial instruments held for trading, including:	371 781	645 081
- equity instruments	207 387	434 775
- debt securities	142 761	194 157
- derivatives	21 633	16 149
Investment property	(99 206)	7 514
Measurement of liabilities to participants in consolidated investment funds	(30 647)	-
Consolidation of investment funds, including:	172 810	-
- amount reclassified from the "Revaluation reserve" to the consolidated profit or loss upon consolidation	184 627	-
- amount resulting from consolidation of special purpose vehicles being subsidiaries of the consolidated funds	(11 817)	-
Net change in the fair value of assets and liabilities measured to fair value	618 091	1 136 407

38. Other operating revenue

Other operating revenue	1 January - 31 December 2013	1 January - 31 December 2012
Commission on claims handling services	7 772	7 953
Provisions released	19 347 ¹⁾	7 991
Released impairment losses on non-financial assets	14 688	3 368
Disposal of property, plant and equipment and property, plant and equipment under construction	3 645	3 290
Reinsurers' commissions and share in reinsurers' profit	76 856	(19 155)
Release of provisions for retirement severance pay in PZU SA and PZU Życie	-	63 865
Release of provisions for jubilee bonuses in PZU SA and PZU Życie	-	113 162
Release of provision for restructuring expenses	18 626	27 253
Non insurance companies' revenues from sales of products, goods and services	262 131	261 202
Change in the scope of consolidation and measurement using the equity method	35 392	-
Income from credit institutions	19 963	26 647
Interest from overdue payments in direct insurance and outward reinsurance	17 264	15 691
Other	15 425	76 761
Total other operating revenue	491 109	588 028

¹⁾ The item presents, among other things, the effect of derecognition of the UOKiK provision (PLN 13,148 thousand) and the provision for PTE's refund of undue fees to the Social Insurance Institution (PLN 1,583 thousand).

The issue of consolidation of subsidiaries and measurement of associates using the equity method effective from 1 January 2013 has been presented in Section 3.4.1.

39. Insurance claims and change in technical provisions

Insurance claims and change in technical provisions	1 January - 31 December 2013	1 January - 31 December 2012
Claims and change in technical provisions – non-life insurance	5 250 037	5 776 295
Reinsurers' share in claims and change in technical provisions – non-life insurance	(33 889)	(152 446)
Claims and change in technical provisions - life insurance	5 945 240	6 595 003
Reinsurers' share in claims and change in technical provisions - life insurance	(164)	(121)
Total insurance claims and change in technical provisions	11 161 224	12 218 731

39.1 Non-life insurance

Claims and change in provisions in non-life insurance	1 January - 31 December 2013	1 January - 31 December 2012
Gross claims and change in provisions in non-life insurance	5 250 037	5 776 295
Claims and claims handling expenses for the current period	2 876 867	3 186 582
Claims and claims handling expenses for previous periods	1 601 198	1 502 148
Change in provision for claims outstanding	771 972	1 087 565
Reinsurers' share in claims and change in provisions in non-life insurance	(33 889)	(152 446)
Claims and claims handling expenses for the current period	(9 973)	(32 034)
Claims and claims handling expenses for previous periods	(266 072)	(95 721)
Change in provision for claims outstanding	242 156	(24 691)
Net claims and change in provisions in non-life insurance	5 216 148	5 623 849
Claims and claims handling expenses for the current period	2 866 894	3 154 548
Claims and claims handling expenses for previous periods	1 335 126	1 406 427
Change in provision for claims outstanding	1 014 128	1 062 874

Change in technical provisions in non-life insurance

Change in provision for unearned premium in non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	4 435 516	(190 865)	4 244 651	4 411 652	(163 937)	4 247 715
Increase (decrease) in provisions for policies concluded in the current year	4 220 358	(160 456)	4 059 902	4 193 481	(152 296)	4 041 185
Increase (decrease) in provisions for policies concluded in previous years	(4 225 756)	140 844	(4 084 912)	(4 158 221)	124 662	(4 033 559)
Exchange differences during the period	(1 290)	537	(753)	(11 396)	706	(10 690)
Change in the consolidation scope	17	-	17			
Closing balance	4 428 845	(209 940)	4 218 905	4 435 516	(190 865)	4 244 651

Change in provision for unexpired risk in non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	8 202	(5)	8 197	13 411	(167)	13 244
Increase (decrease) in provisions for policies concluded in the current year	5 546	-	5 546	2 330	157	2 487
Increase (decrease) in provisions for policies concluded in previous years	(5 016)	(12)	(5 028)	(6 609)	(5)	(6 614)
Exchange differences during the period	38	1	39	(930)	10	(920)
Closing balance	8 770	(16)	8 754	8 202	(5)	8 197

(in PLN '000)

Change in provisions for claims outstanding in non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance, including:	5 362 089	(304 051)	5 058 038	4 817 359	(283 085)	4 534 274
- for claims reported	1 970 611	(234 276)	1 736 335	1 824 201	(233 774)	1 590 427
- for claims incurred but not reported (IBNR)	2 413 008	(55 337)	2 357 671	2 171 324	(37 503)	2 133 821
- for claims handling expenses	978 470	(14 438)	964 032	821 834	(11 808)	810 026
Paid claims concerning losses incurred in previous years, including:	(1 506 275)	265 311	(1 240 964)	(1 479 312)	90 206	(1 389 106)
- claims paid	(1 276 357)	261 990	(1 014 367)	(1 264 643)	87 450	(1 177 193)
- claims handling expenses	(229 918)	3 321	(226 597)	(214 669)	2 756	(211 913)
Increase (decrease) in provisions, including:	2 185 105	(130 145)	2 054 960	2 036 969	(108 895)	1 928 074
- losses incurred in the current year	1 895 793	(35 684)	1 860 109	2 078 170	(111 127)	1 967 043
- losses incurred in the previous years	289 312	(94 461)	194 851	(41 201)	2 232	(38 969)
Other changes	-	(1 834)	(1 834)	-	(5 049)	(5 049)
Exchange differences during the period	111	344	455	(12 927)	2 772	(10 155)
Closing balance	6 041 030	(170 375)	5 870 655	5 362 089	(304 051)	5 058 038
- for claims reported	2 072 193	(121 826)	1 950 367	1 970 611	(234 276)	1 736 335
- for claims incurred but not reported (IBNR)	2 615 113	(29 989)	2 585 124	2 413 008	(55 337)	2 357 671
- for claims handling expenses	1 353 724	(18 560)	1 335 164	978 470	(14 438)	964 032

Change in provision for capitalized value of annuity claims – non-life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	5 660 281	(254 413)	5 405 868	5 088 626	(253 524)	4 835 102
Paid claims concerning losses incurred in previous years	(179 944)	3 839	(176 105)	(174 797)	7 896	(166 901)
Increase (decrease) in provisions for losses incurred in the previous years	23 321	104 997	128 318	221 010	11 333	232 343
Adjustments resulting from revision of technical rates	(16 981)	775	(16 206)	244 950	(13 889)	231 061
Increase in provisions for losses incurred in the current year	274 655	-	274 655	265 864	-	265 864
Other changes	-	(1 378)	(1 378)	14 628	(6 229)	8 399
Closing balance	5 761 332	(146 180)	5 615 152	5 660 281	(254 413)	5 405 868

39.2 Life insurance

Insurance claims in life insurance	1 January - 31 December 2013	1 January - 31 December 2012
Resulting from maturity	368 811	409 493
Resulting from claims paid in case of death	2 754 574	2 606 907
Resulting from morbidity	608 914	614 392
Resulting from resignation from the insurance contract	252 719	240 989
Resulting from disability and entitlement to a disability pension	5 135	5 694
Resulting from annuity claims	41 517	42 746
Resulting from childbirth	306 859	317 853
Resulting from hospital treatment	288 703	274 837
Resulting from a refund of accumulated cash and transfer payments	141 703	191 436
Other	146 889	141 080
Total insurance claims in life insurance	4 915 824	4 845 427

All claims for 2013 and 2012 related to direct insurance.

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	93 449	-	93 449	96 333	-	96 333
Increases	103 223	(91)	103 132	93 449	1 488	94 937
Decreases	(93 711)	2	(93 709)	(96 333)	(1 488)	(97 821)
Exchange differences	(565)	3	(561)	-	-	-
Closing balance	102 396	(86)	102 311	93 449	-	93 449

Change in life insurance provision – insurance contracts	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	16 208 275	-	16 208 275	15 177 227	-	15 177 227
Increase (decrease) in provisions related to current year policies	564 859	-	564 859	520 825	-	520 825
Increase (decrease) in provisions related to prior year policies	(260 234)	-	(260 234)	(330 058)	-	(330 058)
Changes in assumptions resulting from technical interest rate changes	17 701	-	17 701	840 281	-	840 281
Exchange differences	(3 807)	-	(3 807)	-	-	-
Closing balance	16 526 794	-	16 526 794	16 208 275	-	16 208 275

Change in provisions in life insurance - unit-linked contracts	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Net assets of the fund at the beginning of the period	3 113 798	-	3 113 798	2 299 767	-	2 299 767
Increases in the fund due to premiums	1 082 943	-	1 082 943	894 952	-	894 952
Payments deducted from the fund for risk, administration and other	(71 333)	-	(71 333)	(46 716)	-	(46 716)
Revenue from the fund's investments	123 774	-	123 774	348 852	-	348 852
Decreases in the fund due to claims, redemptions, etc.	(354 088)	-	(354 088)	(350 060)	-	(350 060)
Other decreases	(43 826)	-	(43 826)	(63 147)	-	(63 147)
Other increases	55 953	-	55 953	30 150	-	30 150
Net assets of the fund at the end of the period	3 907 221	-	3 907 221	3 113 798	-	3 113 798

(in PLN '000)

Change in provisions for claims, gross	1 January - 31 December 2013			1 January - 31 December 2012		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
RBNP at the beginning of the period	115 394	-	115 394	125 937	-	125 937
IBNR at the beginning of the period	400 962	-	400 962	486 185	-	486 185
Total RBNP and IBNR at the beginning of the period	516 356	-	516 356	612 122	-	612 122
Provisions for claims applied during the year	(516 356)	-	(516 356)	(612 122)	-	(612 122)
Provisions for claims created during the year	545 751	-	545 751	516 356	-	516 356
Total RBNP and IBNR at the end of the period	545 751	-	545 751	516 356	-	516 356
RBNP at the end of the period	138 366	-	138 366	115 394	-	115 394
IBNR at the end of the period	407 385	-	407 385	400 962	-	400 962

39.3 Claims handling costs

Claims handling costs, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	18 766	16 562
External services	185 488	208 681
Taxes and charges	15 330	12 794
Employee expenses	297 618	318 090
Depreciation of property, plant and equipment	13 603	15 157
Amortization of intangible assets	12 904	17 764
Other (by type), including:	86 582	68 906
- Default interest, penalties and damages	77 608	59 945
- other	8 974	8 961
Claims handling costs total	630 291	657 954

40. Benefits and change in measurement of investment contracts

Benefits and change in measurement of investment contracts	1 January - 31 December 2013	1 January - 31 December 2012
Resulting from investment contracts with guaranteed and fixed terms and conditions	43 536	85 140
- interest expenses included in the effective interest rate	43 536	85 140
Resulting from unit-linked investment contracts	34 179	91 640
Benefits and change in measurement of investment contracts total	77 715	176 780

41. Acquisition costs

Acquisition costs, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	31 058	26 021
External services	86 743	93 203
Taxes and charges	5 712	6 213
Employee expenses	371 888	417 671
Amortization of property, plant and equipment	13 726	15 473
Amortization of intangible assets	12 284	16 843
Other (by type), including:	1 527 023	1 430 936
- direct business commission	1 464 182	1 374 805
- advertisement	51 854	44 362
- indirect business commission	5 218	4 493
- other	5 769	7 276
Change in deferred acquisition costs	(32 496)	(6 009)
Total acquisition costs	2 015 938	2 000 351

42. Administrative expenses

Administrative expenses, by type	1 January - 31 December 2013	1 January - 31 December 2012
Consumption of materials and energy	44 763	47 333
External services	202 192	209 587
Taxes and charges	37 137	36 365
Employee expenses	715 242	734 357
Amortization of property, plant and equipment	44 223	49 719
Amortization of intangible assets	33 819	39 283
Remuneration of individuals maintaining group insurance with employers	208 165	217 510
Other (by type), including:	120 939	106 147
- advertisement	77 633	81 608
- other	43 306	24 539
Total administrative expenses	1 406 480	1 440 301

Administrative expenses include also costs of insurance activity, not classified as acquisition costs, related to collected premium, management of the portfolio of insurance contracts, reinsurance contracts and other related to the operations of the insurance companies of the PZU Group as specified in their by-laws.

"Taxes and charges" includes PTE PZU business expenses.

43. Employee expenses

Employee expenses	1 January - 31 December 2013	1 January - 31 December 2012
Payroll	1 138 055	1 194 070
Defined contributions plans; including	249 252	250 008
- overheads	189 517	189 044
- third pillar pension insurance, including costs of premium to PPE incurred in the period	59 735	60 964
Other	69 741	67 721
Total employee expenses	1 457 048	1 511 799

As at 31 December 2013, PZU, PZU Życie and PZU CO had pillar-three pension plans for their employees - defined contribution plans - paid by the employer in addition to the salary defined in the employment contract, accounting for 7% of the gross salary. In the case of PZU and PZU CO, the plans are managed by MPTE. PZU Życie manages the plan itself.

44. Other operating expenses

Other operating expenses	1 January - 31 December 2013	1 January - 31 December 2012
Costs of core business of non-insurance companies	270 895	273 737
Impairment of non-financial assets	54 039	6 696
Compulsory payments to the insurance market authorities	51 046	52 995
Expenses due to prevention activities	40 752	18 697
Insurance Guarantee Fund	36 703	29 560
Donations ¹⁾	35 467	51 067
Change in the scope of consolidation	35 134	-
National Headquarters of the State Fire Service and Volunteer Fire Service Association	30 215	28 617
Recognition of provisions	9 036	8 909
Rechargeable expenses	7 429	7 861
Costs of acquisition for investment fund management companies	1 850	2 679
Net value of property, plant and equipment and property, plant and equipment under construction sold	897	1 850
Default interest, penalties and damages	505	991
Costs relating to loss adjusting services	264	179
Recognition of UOKiK provision	-	1 275
Recognition of provision for restructuring and reorganization expenses	-	48 353
Other	131 367	85 272
Total other operating expenses	705 599	618 738

¹⁾ including donations to PZU Foundation in amount of PLN 32,000 thousand (in 2012 PLN 50,000 thousand).

The issue of consolidation of subsidiaries and affiliates valued under the equity method from 1 January 2013 was presented in section 3.4.1.

45. Financial expenses

Financial expenses	1 January - 31 December 2013	1 January - 31 December 2012
Interest, including:	60 663	41 818
- loans	45 218	34 939
- credit facilities	14 453	6 879
- other	992	-
Other, including:	1 001	(328)
- exchange differences	557	(374)
- other	444	46
Total financial expenses	61 664	41 490

Loans interest mainly contains interest relating to sell-buy-back transactions.

46. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January - 31 December 2013	1 January - 31 December 2012
Financial assets	7 498	(30 508)
- financial assets held to maturity	1 512	(11 149)
- financial assets available for sale	(503)	(4 516)
- loans	6 489	(14 843)
Receivables, including under insurance contracts	(1 128)	(4 357)
Cash and cash equivalents	(675)	(587)
Other liabilities	4	(8)
Total exchange differences recognized in the consolidated income statement	5 699	(35 460)

The statement does not include exchange differences concerning technical provisions as they cannot be determined due to the adopted method of calculation of the above provisions.

47. Income tax

Income tax	1 January - 31 December 2013	1 January - 31 December 2012
Gross profit (loss) (consolidated)	4 120 692	4 038 708
CIT rate (or range of rates) for the country of the registered office of the parent (%)	19%	19%
Income tax which would be calculated as the product of the gross book profit of the entities and the CIT rate for the country of the registered office of the parent	782 931	767 355
Differences between the income tax calculated above and the income tax recognized in the income statement:	42 648	17 527
- tax losses	(874)	(3 066)
- fines, contractual penalties	1 678	796
- dividends	(4 025)	(19 806)
- measurement of financial assets	(17 362)	7 628
- created/released write-downs on receivables not classified as tax deductible expenses	4 137	30 628
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	51 401	(9 115)
- unrealized gains and losses on outward reinsurance	(4 033)	(1 266)
- tax on insurance activities in Ukraine	4 585	4 673
- amortization	448	602
- other tax increase, cancellation, exemption, deduction and reduction	6 693	6 453
Income tax recognized in the profit or loss	825 579	784 882

Total current and deferred tax	1 January - 31 December 2013	1 January - 31 December 2012
1. Recognized in profit or loss, including:	825 579	784 882
- current tax	885 776	568 541
- deferred tax	(60 197)	216 341
2. Recognized in other comprehensive income, including:	(39 617)	26 002
- current tax	-	-
- deferred tax	(39 617)	26 002

Regulations concerning corporate income tax, personal income tax, value added tax and contributions to social security undergo frequent changes. Valid regulations contain unclear issues which result in a difference in opinions regarding legal interpretation of these regulations, both among competent authorities as well as between these authorities and enterprises. Tax and other settlements (e.g. regarding customs duty or foreign currency settlements) may be controlled by authorities competent to levy high penalties, and additional liability amounts assessed during control bear high interest. As a result, the tax risk in Poland, Lithuania and Ukraine

exceeds the level characteristic of countries with better developed tax systems. In Poland tax returns are subject to control over a period of five years. Consequently, the amounts presented in these consolidated financial statements may change at a later date, after they have been finally assessed by tax authorities.

48. Income tax presented in other comprehensive income

Income tax presented in other comprehensive income	1 January - 31 December 2013	1 January - 31 December 2012
Other comprehensive income	(144 127)	114 662
Income tax	39 617	(26 002)
Financial assets available for sale	42 802	(22 051)
Real property reclassified from property, plant and equipment to investment property	(3 185)	(3 951)
Other comprehensive income gross	(104 510)	88 660

49. Revenue from the exchange of goods and services

In 2013 and 2012, the PZU Group did not recognize any revenue from the exchange of goods and services.

50. Assets used as security of receivables, liabilities and contingent liabilities

50.1 Financial assets used as security of liabilities

As at 31 December 2013 the treasury bonds with the carrying amount of PLN 5,123,990 thousand (31 December 2012: PLN 840,495 thousand) held by the companies in the PZU Group were used as a collateral of the sell-buy-back transactions described in section 32.3.

50.2 Financial assets used as collateral for originated loans

As at 31 December 2013 and 31 December 2012, PZU and PZU Życie were party to buy-sell-back transactions and extended loans secured by financial assets.

Information about the values of the transactions has been provided in section 14.4.

50.3 Property, plant and equipment

As at 31 December 2013, assets held for sale were mortgaged up to the total amount of PLN 49,146 thousand in order to collateralize loan agreements.

As at 31 December 2012 the assets held for sale were mortgaged up to PLN 10,000 thousand in order to provide collateral for the contingent agreement.

51. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2013	31 December 2012
Contingent assets, including:	35 231	17 746
- guarantees and sureties received	21 259	17 746
- other ¹⁾	13 972	-
Contingent liabilities	144 576	210 459
- guarantees and sureties issued	6 842	6 790
- disputable claims related to insurance	92 535	69 651
- other disputable claims	17 270	53 541
- other, including:	27 929	80 477
- potential liabilities arising from loan agreements entered into by the Armatura Group	27 622	49 702
- potential liabilities arising from disposal of real property by the Armatura Group	-	30 000

¹⁾ "Other" includes financial assets pledged as collateral for transactions involving derivatives.

51.1 Credit facility/loan collateral or guarantees given by PZU or its subsidiaries

In 2013, neither PZU nor its subsidiaries gave credit facility/loan collateral or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

51.2 Potential litigation relating to the continued family insurance portfolio

In 1998, proceedings before the Supreme Court regarding revaluation of the sum insured in continued family insurance were concluded, as a result of which PZU Życie was obliged to pay claims exceeding the amount under the insurance contract. Additionally, in several cases district courts issue similar judgments.

According to PZU Życie, the insured under individually continued family insurance policies have been entitled to increase the sum insured. Therefore, any claims regarding revaluation are groundless if the sum insured has not been increased. If in similar cases courts issue judgments on claims revaluation above the sum insured, it will have adverse consequences for the Polish insurance system as a whole. If in the future claims are filed or lawsuits brought by the insured against PZU Życie regarding continued family insurance, the Company will firmly oppose revaluation of claims above the sum insured specified in the policy.

Therefore, according to the Management Board of PZU Życie, there are no reasonable grounds for disclosing any provisions for potential claims relating to the continued family insurance portfolio in these consolidated financial statements.

52. Dispute

The entities in the PZU Group are parties to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for the PZU Group.

Most disputes the PZU Group companies are parties to pertain to two companies: PZU and PZU Życie. In addition PZU and PZU Życie participate in the proceedings before the President of the Office of Competition and Consumer Protection (UOKiK).

PZU and PZU Życie consider such claims when creating technical provisions for reported damages, considering the probability of an unfavourable decision of the court and estimating the value of probable settlement. Disputable claims regarding revaluation of annuities at PZU Życie are recognized in other technical provisions in

the amount of annual annuity in excess of the corresponding provision amount as determined under mathematical provisions for life insurance purposes.

In 2013 and by the date of submission of these consolidated financial statements, the PZU Group did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU or its direct or indirect subsidiary of the value or the total value of at least 10% of the equity of PZU.

As of 31 December 2013 the total value of all 61,616 cases held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group companies was PLN 2,545,751 thousand. The amount includes PLN 1,967,952 thousand of liabilities and PLN 577,799 thousand of receivables of the PZU Group companies, which constituted 16.05% and 4.71% of PZU equity calculated in accordance with PAS, respectively.

52.1 Resolution of General Shareholders meeting of PZU regarding 2006 profit distribution

A petition of 30 July 2007 initiated an action of Manchester Securities Corporation against PZU regarding cancellation of GSM Resolution no. 8/2007 of 30 June 2007 regarding distribution of PZU profit for 2006 as non-compliant with good practices and acting to the detriment of the claimant, a shareholder of PZU.

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

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

In its decision of 22 January 2010, the District Court in Warsaw cancelled the above resolution. On 17 February 2010, PZU appealed against the decision of the District Court in Warsaw.

In a decision of 6 December 2011, the Appellate Court in Warsaw dismissed the complaint of PZU against the decision of the District Court in Warsaw of 22 January 2010. As of the date of decision by the Appellate Court, the decision issued by the District Court on 22 January 2010 that cancelled the above resolution of the General Shareholders Meeting became legally binding.

On 7 December 2011, PZU motioned for a written rationale for the decision of the Appellate Court in Warsaw of 6 December 2011. On 2 April 2012, the decision with rationale was delivered to PZU. On 29 May 2012, PZU lodged a cassation appeal regarding the entire decision of the Appellate Court of 6 December 2011. During its session on 27 March 2013, the Supreme Court pronounced a judgment whereby the cassation complaint was dismissed and the court fees, including the legal representation costs, were imposed on PZU. According to the Code of Civil Procedure, the judgment of the Supreme Court is final and it may not be appealed against.

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

Regardless of the above, following the decision cancelling the above resolution becoming effective, the agenda of GSM of 30 May 2012 included a point regarding distribution of profit for 2006.

The Management Board recommended distributing the 2006 profit in a manner corresponding to the resolution cancelled with the above decisions, since after its passing, PZU paid dividend for 2009 using funds retained based on that resolution.

On 30 May 2012 GSM decided to distribute the profit for 2006 in a manner corresponding to the cancelled resolution. Manchester Securities Corporation objected against the resolution of 30 May 2012, which was recorded in the minutes.

On 20 August 2012, PZU received a copy of complaint lodged by Manchester Securities Corporation in the District Court in Warsaw, in which the plaintiff requested cancellation of the resolution of 30 May 2012 regarding distribution of 2006 profit with the value of the disputable object determined at PLN 5,054 thousand. PZU responded, requesting dismissal of the entire claim.

On 17 December 2013, the District Court pronounced a judgment whereby the claims were accepted in whole and the costs of the proceedings awarded from PZU to Manchester Securities Corporation. On 4 March 2014, PZU appealed against the judgment in whole.

As at the balance sheet date of 31 December 2013, no changes in presentation of PZU capitals were made that may result from cancellation of the resolution, including "Supplementary capital" and "Previous year profit (loss)". The funds appropriated to the Company's Social Benefit Fund were not adjusted or provisions recognized against any potential additional claims resulting from cancellation of the above resolution.

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

52.2.1. Fine imposed in 2009 for standard agreements

In a decision of 30 December 2009 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 14,792 thousand for the use of practices that infringe the collective interest of consumers consisting in:

- including contractual provisions listed in the Register of prohibited contractual provisions in the standard agreements;
- including contractual provisions which infringe Article 813.1 of the Civil Code by citing the unused sum insured as the condition for the amount of premium reimbursed to the consumer by the insurance company due to unused insurance period whereas the Article does not refer to such condition.

PZU does not agree with the decision and its statement of reasons. On 18 January 2010 PZU appealed to the Court of Competition and Consumer Protection against the decision (this way the decision did not become valid). In a ruling of 14 November 2011 the Court of Competition and Consumer Protection dismissed the appeal of PZU. On 14 December 2011 PZU appealed to the Court of Appeals in Warsaw. In a decision of 5 July 2012 the Appellate Court dismissed the decision of Court of Competition and Consumer Protection of 14 November 2011 and returned it for rehearing. On 18 January 2013, Court of Competition and Consumer Protection cancelled the decision of President of Office of Competition and Consumer Protection of 30 December 2009. On 6 March 2013 President of Office of Competition and Consumer Protection appealed to Court of Competition and Consumer Protection.

On 6 November 2013, the Appellate Court in Warsaw changed the judgment issued by the Court of Competition and Consumer Protection on 18 January 2013 through reversal of the decision of the President of the Office of Competition and Consumer Protection dated 30 December 2009 in part, dismissal – as regards the contractual clauses in contravention of Article 813.1 of the Civil Code – of PZU's appeal of 18 January 2010, reduction of fine to PLN 1,644 thousand. The judgment of 6 November 2013 is final. A final appeal against the judgment may be filed with the Supreme Court within 2 months of the date of receipt of the statement of reasons. The aforesaid statement of reasons had not been provided to PZU by the date of signing these consolidated financial statements.

The fine of PLN 1,644 thousand, paid by the Company, was charged to a provision, which amounted to PLN 14,792 thousand as at 31 December 2012. The remaining amount of the provision (PLN 13,148 thousand) was derecognized.

52.2.2. Fines imposed in 2011

52.2.2.1. Reimbursement of the costs of rental a replacement car

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

- refusing to acknowledge that the loss of the possibility to use the damaged car is a property damage and agreeing to pay damages for the rental of a replacement car only if the injured party presented specific circumstances necessitating the rental of a replacement car;

- leaving out the period necessary for the garage to obtain spare parts from the calculation of the reimbursement for the costs of rental of the replacement car;

and demanded that the practices be discontinued.

The Management Board of PZU does not agree with the decision and its legal and factual statement of reasons.

On 5 December 2011 PZU appealed against the decision (thus the decision did not become valid) citing a number of objections.

At a trial held on 2 December 2013, the District Court in Warsaw passed a judgment whereby PZU's appeal was dismissed and the costs of legal representation were awarded from PZU to the President of the Office of Competition and Consumer Protection. On 23 December 2013, PZU appealed against the aforementioned judgment. However, the appeal had not been examined by the Appellate Court in Warsaw by the date of these consolidated financial statements.

Regardless of the appeal measures employed, PZU recognized a provision for the aforesaid fine, which amounted to PLN 11,287 thousand both as at 31 December 2013 and 31 December 2012.

52.2.2.2. Sale of a group accident insurance

In a decision of 30 December 2011 the President of the Office of Competition and Consumer Protection imposed a fine on PZU of PLN 56,605 thousand for the use of practices that limit competition and infringe the prohibition specified in Article 6.1.3 of the Act on competition and consumer protection following an agreement concluded by PZU and Maximus Broker Sp. z o.o. with its registered office in Toruń ("Maximus Broker") that limited the competition in the domestic group accident insurance for children, youth and staff of educational institutions by dividing the market between the entities – the clients of PZU in the kujawsko-pomorskie region were serviced by Maximus Broker in exchange for recommendation of PZU insurance to those clients. The Office demanded that the practices be discontinued.

The Management Board of PZU does not agree with the facts and legal reasons presented in the decision. In the opinion of the Management Board of PZU the decision does not consider all the evidence and the legal classification was not correct.

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

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

On 22 October 2012, PZU received a response of President of Office of Competition and Consumer Protection to its appeal. PZU replied to this response on 5 November 2012. The date of the trial had not been set by the date of signing these consolidated financial statements.

Regardless of the initiated appeal procedures, PZU recognized a provision for the above fine, whose amount both as at 31 December 2013 and 31 December 2012 was PLN 56,605 thousand.

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

On 1 June 2005, at the request of several petitioners the President of the Office of Competition and Consumer Protection ("CCCP") instituted antimonopoly proceedings on suspicion of abuse by PZU Życie of its dominant position in the market of employee group insurance, which might breach the provisions of Article 8 of the Act on competition and consumer protection and Article 82 of the Treaty Establishing the European Community. In the decision of 25 October 2007 concluding the aforementioned proceedings, the President of the Office of

Competition and Consumer Protection imposed a fine of PLN 50,384 thousand on PZU Życie for hindering access to the competitors' offers.

The Management Board of PZU Życie disagrees both with the findings and legal arguments presented in the decision. According to the Management Board of PZU Życie, the decision issued did not take into account all the evidence and the legal qualification was incorrect, as a result of which it was assumed wrongly that the market position of PZU Życie was dominant.

PZU Życie appealed against the decision to the Court of Competition and Consumer Protection, presenting 38 substantive and formal charges with respect to the decision issued by the President of CCCP. On 31 May 2010 the Court issued a ruling whereby it dismissed the appeal of PZU Życie on the grounds that the decision of the President of CCCP of 25 October 2007 was not correctly served on PZU Życie and thus the period available to PZU Życie to appeal against the decision did not start. The ruling has been appealed against by both parties. Having considered the appeals placed by the plaintiff and the defendant, in a ruling of 26 October 2010, the court of second instance cancelled the disputed decision. In a ruling of 17 February 2011, the District Court in Warsaw – Consumer and Competition Protection Court – partly modified the decision in question, at the same time dismissing the appeal lodged by PZU Życie in relation to the amount of penalty. On 6 May 2011, PZU Życie appealed against the decision.

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

On 20 December 2013, a trial was held before the District Court in Warsaw – Court of Competition and Consumer Protection. Pronouncement of the judgment was deferred twice due to the judge's illness. Therefore, on 17 January 2014 the trial was reopened. The following trial is to be held on 14 March 2014.

Regardless of the initiated appellation procedures, PZU Życie recognized a provision for the above fine, whose amount both as at 31 December 2013 and 31 December 2012 was PLN 50,384 thousand.

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

52.4.1. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw

On 9 April 2010 the Court of Arbitration served on PZU Życie a statement of claim for payment. The case against PZU Życie was brought by CSC Computer Sciences Polska sp. z o. o. which demanded payment of EUR 8,437 thousand with respect to implementation of the GraphTalk system at PZU Życie. Following subsequent amendments, CSC claimed the total of PLN 35,663 thousand with interest due from the claim date (i.e. from 31 March 2010) until the date of payment.

The amount sought by CSC includes the claims related to licence fees, implementation works, maintenance of the computer system, service works, fee for computer systems, liquidated damages and capitalized interest.

On 31 May 2010 in response to the statement of claim, PZU Życie requested that the Court of Arbitration rule that the court temporarily refuses jurisdiction for some claims and dismissed the entire claims. In the opinion of PZU Życie, the claims of CSC are either unfounded or have not been proven.

PZU Życie also filed a counter claim against CSC, demanding payment of PLN 71,890 thousand as a return of remuneration collected by CSC under the concluded contract or as damages for undue performance of obligations under the concluded contract. In response to the counter claim, on 31 August 2010, CSC motioned dismissal of the entire claim of PZU Życie indicating absence of evidence to accept it.

On 31 January 2012 a hearing was held before the Arbitration Court at the Polish Chamber of Commerce in Warsaw, and on 19 June 2012 the Court closed the case. Following submission of another claim modification by CSC, the Arbitration Court re-opened the case.

On 18 December 2012, the Arbitration Court at the Polish Chamber of Commerce issued a decision ("Decision") adjudicating the payment of PLN 17,193 thousand for CSC by PZU Życie and cancelled the main complaint

regarding the payment of EUR 8,437 thousand with statutory interest for the period from the date of complaint. Further, the Court dismissed the remainder of the action, the mutual action and adjudicated the amount of PLN 199 thousand payable to CSC by PZU Życie as refund of the proceeding expenses.

52.4.2. Proceedings concerning order of enforcement

On 23 January 2013, CSC motioned to the District Court in Warsaw for a statement of enforcement of the Decision and providing it with a writ of execution.

At the request of CSC of 23 January 2013, on 15 March 2013 the District Court in Warsaw decided to issue an order of enforcement with respect to the Judgment.

On 18 March 2013, PZU Życie filed a complaint against the aforesaid decision of 15 March 2013 with the District Court in Warsaw, demanding suspension of its enforcement. In response, on 22 March 2013, the Court decided to suspend enforcement of the aforementioned decision until resolution of the complaint lodged by PZU Życie on 18 March 2013. On 4 April 2013, CSC submitted to the Court its response to the complaint filed by PZU Życie, demanding its dismissal in whole. The Appellate Court decided to adjourn the hearing of the complaint until the date of the District Court's examination of the complaint filed by PZU Życie to reverse the Judgment.

52.4.3. Proceedings concerning the complaint filed by PZU Życie to reverse the Judgment

On 1 February 2013, PZU Życie submitted a complaint to the District Court in Warsaw, motioning for cancellation of the Decision and suspend its execution with regard to the amount of PLN 17,193 thousand payable to CSC, dismissal of mutual action and adjudicating the payment of PLN 199 thousand to CSC as refund of the proceeding expenses. Further, PZU Życie motioned to adjudicate refund of the proceeding expenses from CSC, including the representation fees according to the prescribed norms and requesting the District Court in Warsaw to motion the Arbitration Court at Polish Chamber of Commerce to submit the arbitration proceeding files to allow the Court to decide whether any circumstances of the case support cancellation of the Decision.

Following the exchange of the filings of CSC and PZU Życie, in its decision of 15 April 2013, the District Court in Warsaw rejected the request submitted by PZU Życie with respect to suspension of enforcement of the Judgment, on grounds of its being premature, as the District Court in Warsaw (in the case presented in detail in Section 52.4.2.) did not declare enforcement of the Judgment pronounced by the court of arbitration, and suspension of enforcement of a judgment which is not subject to an enforcement procedure is not possible.

In its judgment of 12 November 2013, the District Court rejected the complaint to reverse the Judgment. The judgment of 12 November 2013 may be appealed against. The appeal should be filed within 14 days of the service of the judgment with the statement of reasons. On 12 November 2013, PZU Życie filed for preparation of a statement of reasons for the judgment. Until the date of signing these consolidated financial statements PZU Życie has not received the above mentioned reasons for judgment.

52.4.4. Proceedings before the Court of Arbitration at the Polish Chamber of Commerce in Warsaw concerning a suit over payment and composition proceedings before the District Court for the capital city of Warsaw concerning a suit over payment

On 29 March 2013, CSC filed a suit against PZU Życie with the Court of Arbitration at the Polish Chamber of Commerce in Warsaw, for payment of PLN 6,690 thousand plus interest accrued in the period from the suit date to the payment date, including:

- PLN 6,064 thousand – payment of statutory interest (on amounts awarded under the arbitration decision of 18 December 2012, as presented in detail in Section 52.4.1), accrued from 1 April 2010 (the date following the date of CSC's suit brought in the case described in Section 52.4.1) to 18 December 2012;
- PLN 626 thousand – payment of statutory interest on amounts awarded under the aforesaid arbitration decision, from 19 December 2012 to the suit date.

On 15 May 2013, PZU Życie filed its response to the suit. On 3 September 2013, a preliminary trial was held. During the following trial on 4 March 2014, PZU Życie was obliged to submit a document confirming the correctness of interest calculation within one week, to which CSC may reply within the next week.

The Management Board of PZU Życie believes that the probability that a significant portion of the interest will be awarded to CSC is very high.

52.5 Submission of PZU claims to the bankruptcy estate of PBG Capital Group companies

PZU, PBG SA with the registered office in Wysogotowo near Poznań (at present: PBG SA in arrangement bankruptcy, henceforth: PBG) and Hydrobudowa Polska SA (at present: Hydrobudowa Polska SA in arrangement bankruptcy, henceforth: Hydrobudowa) with the registered office in Wysogotowo near Poznań concluded contracts of mandate regarding periodic insurance guarantees (contractual guarantees). Based on these contracts PZU issued insurance guarantees. Should PZU perform on these guarantees, its clients: PBG and Hydrobudowa, were obliged to refund amounts paid.

In 2012 bankruptcy proceedings (with possibility of arrangement) were initiated before District Court in Poznań against PBG and Hydrobudowa. On 21 September 2012 PZU joined the above proceedings submitting its claims to the bankruptcy estate of both companies.

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

- PBG granted sureties regarding PLN 33,747 thousand arising from guarantees issued for Hydrobudowa;
- Hydrobudowa granted sureties regarding PLN 67,249 thousand arising from guarantees issued for PBG.

Following their verification by the judge-commissioner and the court appointed supervisor, PZU's receivables due from the bankruptcy estate of PBG, in the amount of PLN 103,014 thousand, have been entered into the list of receivables.

52.6 Dispute with Comarch SA

On 12 November 2012, PZU received a copy of payment order issued on 26 October 2012 by the District Court in Warsaw under the writ of payment proceedings, along with a copy of complaint and appendices regarding the action of Comarch SA against PZU. Based on the above order, PZU was levied with the amount of PLN 19,758 thousand with interest and PLN 32 thousand as refund of costs of proceedings. The claim made by Comarch SA includes costs calculated by the company in relation to work and tasks performed following a commission of PZU in the project regarding an IT system to maintain financial insurance policies.

On 26 November 2012 PZU submitted an objection against the payment order, challenged it and requested dismissal of the entire case. The case was referred to the mediation. On 10 April 2013, PZU and Comarch SA reached an amicable agreement whereby the parties waive their claims and retain the benefits obtained. On 9 May 2013, the District Court in Warsaw issued a decision approving the aforementioned amicable agreement, which became final on 25 May 2013. The aforementioned agreement has not had any effect on the financial profit/loss.

52.7 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o. o.

In 1999 PZU Życie granted a mortgage loan to Metro-Projekt Sp. z o. o. (henceforth "Metro-Projekt") with a 5-year tenor. The amount of the loan was the equivalent of USD 25,500 thousand. The loan was collateralized by maximum value mortgage on real property, including the land perpetual usufruct and a building owned by Metro-Projekt, located in Warsaw at Al. Jerozolimskie 44.

The loan had not been repaid and in November 2002 Metro-Projekt was declared bankrupt.

On 15 September 2004, the receiver of Universal SA in bankruptcy ("Universal") brought an action to the District Court in Warsaw demanding exclusion of the property located in Warsaw at Al. Jerozolimskie 44 from the

bankruptcy assets of Metro-Projekt due to an entry in section III of the land and mortgage register of a warning regarding the proceedings pending between Universal and BI Code SA ("BI Code") for cancellation of a transaction involving sales of the property by Universal to BI Code from which Metro-Projekt acquired the property. In view of the above, on 21 September 2004 the District Court in Warsaw issued a decision suspending the liquidation of assets of Metro-Projekt until the lawsuit for exclusion of the aforementioned property from the bankruptcy assets is settled.

The action for cancellation of the agreement transferring the perpetual usufruct right and ownership title to the office building located in Warsaw at Al. Jerozolimskie 44 was settled on 7 March 2006. The Court of Appeals in Warsaw dismissed the lawsuit brought by Universal against BI Code. However, in August 2006 the receiver of Universal made a final appeal to the Supreme Court with respect to the aforementioned decision.

After the judgment of the Court of Appeals of 7 March 2006 became final, Metro-Projekt applied for deletion of the warning entered in section III of the land and mortgage register regarding the pending court proceedings instituted by Universal against BI Code for cancellation of the aforementioned sales agreement. The decision to delete the above entry was issued on 3 November 2006.

On 14 March 2007 the Supreme Court reversed the judgment of the Court of Appeals and ordered that the case to be re-examined by that court. On 21 November 2007 the Court of Appeals reversed the judgment of the District Court and ordered that the case be re-examined by that court.

On 11 September 2009, the District Court issued a judgement in the lawsuit filed by the receiver of Universal against the receiver of BI Code for cancellation of the sales agreement for the land perpetual usufruct right and the ownership title to the building, entered into between Universal and BI Code, pursuant to which the aforementioned sales agreement was cancelled. The receiver of BI Code SA appealed against the judgment which was dismissed in a decision of 29 July 2010. The receiver of BI Code made a final appeal to the District Court but it has not been accepted to consider. Therefore the proceeding was terminated.

In January 2011 the receiver of Metro-Projekt requested that the proceedings before the District Court brought by the receiver of Universal for exclusion of the land perpetual usufruct right and the separate title to the building on that land suspended in 2005 were resumed. On 30 May 2011, the Regional Court dismissed the claim of Universal.

The decision was not final and binding; on 12 September 2011 the Receiver of Universal appealed against it. In a decision of 23 February 2012, the District Court in Warsaw dismissed the appeal of the Receiver of Universal regarding separation of the property located at Aleje Jerozolimskie 44 in Warsaw from the bankruptcy estate of Metro-Projekt. The litigation ended with a binding ruling.

On 9 May 2012, the Receiver of Metro-Projekt motioned the Magistrate in Bankruptcy to allow settlement with the Receiver of Universal with regard to disputable claims between the bankruptcy estates of the companies. Following the settlement, in exchange for resigning from claims for the bankruptcy estate of Universal, that of Metro-Projekt was to be charged with the additional amount of PLN 5,722 thousand to be transferred to the former. Magistrate in Bankruptcy approved the settlement in a decision of 31 May 2012. The decision is final and binding.

Following irrecoverable resignation from claims against Metro-Project submitted in the form of a notarized deed by the Receiver of Universal, the Receiver of Metro-Projekt transferred the above amount to the bankruptcy estate of Universal on 5 July 2012.

On 10 January 2013, 18 March 2013, 19 June 2013 and 30 September 2013, the Receiver of Metro-Projekt announced the sale of the enterprise of the bankrupt company under a single-source contract, with a proviso that it should have the form of a tender/auction. The starting price for the enterprise was PLN 110 million, PLN 99 million, PLN 93 million and PLN 90 million, respectively. As no tenders were submitted, the procedure was not carried out.

Regarding unsuccessful attempts to sell the business constituting the bankruptcy estate of Metro-projekt (consisting mainly of real property) the fair value of the property was verified and consequently the decrease in recovery amount of which PZU Życie expects the additional impairment loss in the amount of PLN 15,170

thousand has been recognized with respect to receivable from Metro-projekt. As at 31 December 2013 the total impairment loss amounted to PLN 26,275 thousand.

In the opinion of the Management Board of PZU, the mortgage established for the benefit of PZU Życie does exist and the Company has the right to pursue the related claims from any owner.

53. Related party transactions

53.1 Remuneration of Members of the Management and Supervisory Board, high level management and supervisory boards of PZU Group companies included in consolidation including profit sharing payments and information on advance payments, loans, borrowings and guarantees given to such Members

In 2013 and 2012 the companies in the PZU Group did not grant any loans or any other similar benefits to members of the Management Boards, high-level management and members of their Supervisory Boards. Parent company

Remuneration of members of the Management Board, high level management and members of the Supervisory Board of PZU is presented below:

Remuneration and other short-term employee benefits paid by PZU	1 January - 31 December 2013		1 January - 31 December 2012	
		including bonuses and awards:		including bonuses:
Management Board, including:	9 503	3 024	7 012	1 600
Andrzej Klesyk	2 780	980	1 691	480
Przemysław Dąbrowski	1 135	336	1 092	252
Dariusz Krzewina	642	-	-	-
Barbara Smalska	593	-	-	-
Tomasz Tarkowski	1 102	336	1 100	259
Ryszard Trepczyński	1 535	736	945	105
Witold Jaworski	-	-	1 176	336
Bogusław Skuza ¹⁾	1 716	636	1 008	168
High level management (PZU Group Directors) including:	3 263	1 122	2 283	337
Rafał Grodzicki	874	250	709	179
Przemysław Henschke	804	180	435	-
Dariusz Krzewina ²⁾	291	180	616	86
Sławomir Niemierka	863	200	523	72
Barbara Smalska ²⁾	431 ³⁾	312 ⁴⁾	-	-
Supervisory Board including:	1 224	-	1 126	-
Waldemar Maj	192	-	162	-
Zbigniew Ćwiąkański	168	-	168	-
Tomasz Zganiacz	144	-	85	-
Dariusz Daniluk	120	-	120	-
Zbigniew Derdziuk	120	-	120	-
Dariusz Filar	120	-	120	-
Włodzimierz Kiciński	120	-	71	-
Alojzy Nowak	120	-	71	-
Maciej Piotrowski	120	-	71	-
Marzena Piszczek	-	-	79	-
Krzysztof Dresler	-	-	59	-

(in PLN '000)

Remuneration and other short-term employee benefits paid by other PZU Group entities	1 January - 31 December 2013		1 January - 31 December 2012	
		including bonuses:		including bonuses:
Management Board, including:	3 826	1 224	2 106	255
Andrzej Klesyk	320	-	386	-
Przemysław Dąbrowski	654	255	425	101
Dariusz Krzewina	1 121	561	-	-
Barbara Smalska	327	-	-	-
Tomasz Tarkowski	510	153	257	77
Ryszard Trepczyński	654	255	409	77
Witold Jaworski	-	-	392	-
Bogusław Skuza ¹⁾	240	-	237	-
High level management (PZU Group Directors) including:	2 235	1 071	2 486	569
Rafał Grodzicki	742	357	704	252
Przemysław Henschke	742	357	381	-
Dariusz Krzewina ²⁾	-	-	992	278
Sławomir Niemierka	751	357	409	39
Barbara Smalska ²⁾	-	-	-	-

Total estimated amount of non-monetary performances granted by PZU and its subsidiaries	1 January – 31 December 2013	1 January – 31 December 2012
Management Board, including:	1 343	1 150
Andrzej Klesyk	251	214
Przemysław Dąbrowski	167	148
Dariusz Krzewina	214	-
Barbara Smalska	151	-
Tomasz Tarkowski	181	273
Ryszard Trepczyński	166	244
Witold Jaworski	-	181
Bogusław Skuza ¹⁾	213	90
High level management (PZU Group Directors) including:	401	617
Rafał Grodzicki	183	192
Przemysław Henschke	55	72
Dariusz Krzewina ²⁾	-	201
Sławomir Niemierka	163	152
Barbara Smalska ²⁾	-	-
Supervisory Board including:	-	1
Alojzy Nowak	-	1

¹⁾ Bogusław Skuza on 27 December 2013 resigned with effective date on 31 December 2013.

²⁾ Dariusz Krzewina and Barbara Smalska were appointed members of the Management Board of PZU on 12 March 2013, effective from 15 March 2013 (additionally, Dariusz Krzewina until 14 March 2013 and Barbara Smalska between 5 February and 14 March 2013 served the role of Directors of the PZU Group).

³⁾ The aforementioned amount includes a bonus for 2012 as well as remuneration for performance of other functions at PZU and PZU Życie until the date of appointment as the Group's Director.

⁴⁾ The aforementioned amount is a bonus for 2012 for performance of other functions at PZU and PZU Życie.

53.1.1. Other PZU Group companies

Remuneration paid to members of the Management Boards and Supervisory Boards of other companies in the PZU Group:

Item	1 January – 31 December 2013	1 January – 31 December 2012
Members of the Management Board	11 015	7 407
Members of the Supervisory Board	898	989

53.2 Other related party transactions

PZU, as part of its insurance activities, concludes insurance contracts with related parties and pays claims. The transactions are concluded and settled on the terms and conditions applicable to customers which are not related parties. Receivables from and liabilities to related parties due to insurance contracts are short-term.

For the purposes of this item:

- “entities controlled by, co-subsiaries of and entities associated with the State Treasury” denote only commercial companies and State Treasury controlled state entities, whose lists are published on the website of the Ministry of Treasury.
- “other related parties” denote entities in liquidation (in 2012 – PZU’s direct or indirect subsidiaries and associates, which are not consolidated, as well as entities in liquidation).

The table below shows the written premiums and investment contract volumes resulting from transactions with entities controlled by, co-subsiaries of and entities associated with the State Treasury, concluded and settled on the terms and conditions which could be obtained in transactions with unrelated parties.

Entities controlled by, co-subsiaries of and entities associated with the State Treasury	1 January – 31 December 2013	1 January – 31 December 2012
Gross written premium at non-life insurance	102 371	110 970
Gross written premium at life insurance	27 514	16 692
PZU Życie investment contract volumes	-	584 564
Total	129 885	712 226

(in PLN '000)

Balances and turnovers of transactions between the PZU Group and related parties	1 January – 31 December 2013 and as at 31 December 2013		1 January – 31 December 2012 and as at 31 December 2012	
	Key members of the management of consolidated entities ¹	Other related entities	Key members of the management of consolidated entities ¹	Other related entities
Gross written premiums				
In property and personal insurance	-	-	-	278
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	15	-	58 157
Expenses	-	-	-	33 379
Including write-offs for receivables recognized in current period	-	-	-	-
Receivables				
gross value	-	8 308	-	11 068
Write-offs	-	8 306	-	(8 306)
net value	-	2	-	2 762
Liabilities	-	-	-	2 528
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

¹⁾ High level management, data as per statements.

As at 31 December 2013 and 31 December 2012, the key item in receivables from other related parties were receivables from Syta Development Sp. z o. o. in liquidation ("Syta Development") due to agreements relating to investments of the Claims Handling and Underwriting Centre of PLN 8,306 thousand (31 December 2012: PLN 9,806 thousand), which - because the agreements were not performed as of that dates - were covered with a revaluation write-down up to the full amount.

53.3 Written premium and investment contracts in bancassurance transactions with banks controlled by the State Treasury

Written premium and investment contracts in bancassurance transactions with banks controlled and associated with the State Treasury.

Written premium and volumes of investment contracts	1 January - 31 December 2013	1 January - 31 December 2012
Bank Powszechna Kasa Oszczędności BP SA	44 994	618 349
PZU Gross written premium	17 480	17 093
PZU Życie Gross written premium	27 514	16 692
Volumes from investment contracts of PZU Życie	-	584 564
Bank Ochrony Środowiska SA	-	39
PZU Gross written premium	-	39
Bank Gospodarstwa Krajowego SA	309	72
PZU Gross written premium	309	72

53.4 Transactions with largest counterparties whose shares are held by the State Treasury

Gross premium writtem¹⁾ from 10 largest counterparties of PZU Group, whose shares are held by the State			
Counterparty	1 January - 31 December 2013	Counterparty	1 January - 31 December 2012
Counterparty 1	44 994	Counterparty 1	618 349
Counterparty 2	30 378	Counterparty 8	30 209
Counterparty 3	16 396	Counterparty 2	24 155
Counterparty 4	5 619	Counterparty 6	6 900
Counterparty 5	5 366	Counterparty 4	5 530
Counterparty 6	5 263	Counterparty 7	4 846
Counterparty 7	4 289	Counterparty 10	2 967
Counterparty 8	4 160	Counterparty 11	2 266
Counterparty 9	1 763	Counterparty 5	1 863
Counterparty 10	1 476	Counterparty 10	1 860

¹⁾ The item includes gross written premium in non-life insurance, life insurance and volumes from investment contracts.

54. Employment

The table below presents the average number of employees in the PZU Group companies.

Item	1 January - 31 December 2013	1 January - 31 December 2012
Management Boards (number of members at the end of the reporting period)	42	31
Management	957	940
Advisors	11	3
Other employees	13 082	13 175
Total	14 092	14 149

55. Other information

55.1 Composition of the Parent's Management Board

As of 1 January 2013, composition of the Management Board of PZU was as follows:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Bogusław Skuza - Member of the Board;
- Tomasz Tarkowski - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

On 12 March 2013, the Supervisory Board of PZU appointed Dariusz Krzewina and Barbara Smalska to the position of Members of the Management Board effective from 15 March 2013.

On 27 December 2013, Bogusław Skuza resigned from the position of Member of the Management Board of PZU as of 31 December 2013.

Composition of the Management Board of PZU between 1 January 2014 and the date of signing these financial statements:

- Andrzej Klesyk - Chairman of the Board;
- Przemysław Dąbrowski - Member of the Board;
- Dariusz Krzewina - Member of the Board;
- Barbara Smalska - Member of the Board;
- Tomasz Tarkowski - Member of the Board;

- Ryszard Trepczyński - Member of the Board.

55.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board as at 1 January 2013 was as follows:

- Waldemar Maj - Chairman;
- Zbigniew Cwiąkański - Vice-Chairman;
- Tomasz Zganiacz – Secretary of the Board;
- Dariusz Daniluk – Member;
- Zbigniew Derdziuk – Member;
- Dariusz Filar - Member;
- Włodzimierz Kiciński - Member;
- Alojzy Nowak – Member;
- Maciej Piotrowski - Member.

Till the date of these financial statements there were no changes in the composition of the Supervisory Board.

55.3 Directors of the Group

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

Directors at the PZU Group as at 1 January 2013:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka.

On 5 February 2013, Barbara Smalska was appointed Director of the PZU Group by the Management Board of PZU and on 19 March 2013 she was dismissed from the aforementioned position as of 14 March 2013. The dismissal was due to her appointment as Member of the Management Board of PZU. For the same reason, Dariusz Krzewina was dismissed from the position of Director of the PZU Group on 19 March 2013, effective from 14 March 2013.

Directors of the PZU Group from 14 March 2013 to the date of 15 January 2014:

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

On 15 January 2014, the Management Board of PZU appointed Tobiasz Bury as Director of the PZU Group effective from 16 January 2014.

55.4 Remuneration of the entity authorized to audit financial statements

The below table presents the amounts paid or payable to entities authorized to audit financial statements of PZU for a given period, increased by VAT and determined on the accrual basis.

Type of services	1 January - 31 December 2013	1 January - 31 December 2012
Audit of financial statements	633	633
Other assurance services	887	519
Tax advisory services	416	377
Other services	34	34
Total	1 970	1 563

The agreement on the audit of condensed separate financial statements of PZU and condensed consolidated financial statements of the PZU Group for the period of six months ended 30 June 2012 and 30 June 2013 and the agreement on the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the year ended 31 December 2012 and 31 December 2013 was concluded and 16 July 2012. Annex of 2 August 2013 modified the scope of work specified in the aforementioned agreement for the separate financial statements of PZU for the period of 6 months ended 30 June 2013 so that the review of the condensed interim separate financial statements of PZU was replaced by an audit of the separate financial statements of PZU for the period of 6 months ended 30 June 2013.

55.5 Employment restructuring in PZU and PZU Życie

On 27 December 2012, the Management Boards of PZU and PZU Życie announced the objectives of the restructuring plan for 2013, which was to cover mainly loss adjustment and finance areas, as well as support functions (administration, logistics, IT), but to a much lesser extent. On 13 February 2013, the Management Boards of PZU and PZU Życie announced the planned layoff in accordance with the Act of 13 March 2003 laying down special principles applicable to termination of employment contracts for reasons other than through the fault of employees (Journal of Laws No. 90 of 2003, item 844, as amended) (the "Act laying down special principles applicable to termination of employment contracts").

On 28 February 2013, PZU, PZU Życie and their trade unions entered into an agreement setting out the terms and conditions of the employment restructuring process. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

The employment restructuring process was carried out as scheduled and it finally affected 2,244 employees of PZU and PZU Życie, while 538 individuals were laid off.

Similarly to all previous stages of the employment restructuring process (i.e. from 2010 to 2012), those employees who were laid off or refused to accept the proposed change of employment terms were offered more favorable terms of leaving the company than the ones provided for by the applicable regulations (Act laying down special principles applicable to termination of employment contracts). The amount of additional redundancy pay depended on the length of service with the PZU Group and the salary of each employee.

The total restructuring costs charged to the restructuring provision in 2013 amounted to PLN 39,568 thousand (throughout 2012: PLN 75,862 thousand), and the unused part of provision in amount of PLN 18,626 thousand has been released.

As at 31 December 2013, there were on provisions for restructuring costs (compared to PLN 58,194 thousand, as at 31 December 2012).

55.6 Changes in the operation of open-end pension funds

Pursuant to the Act of 6 December 2013 amending certain other acts due to determination of the terms of payment of pension benefits out of the funds accumulated in open-end pension funds (Journal of Laws of 2013, item 1717), changes were introduced to the operation of pension funds. The new legislation will have an effect on the operation of OFE PZU and PTE PZU in 2014 and in the following years.

Under the aforesaid amendments, OFE PZU has been obliged to transfer assets representing 51.5% of the accounting units recorded in the account of each OFE PZU member to the Social Insurance Institution. On 3 February 2014, the Fund transferred assets in the form of treasury bonds, bonds issued by Bank Gospodarstwa Krajowego and cash corresponding to the redemption value to the Social Insurance Institution. Asset transfer to the Social Insurance Institution will have a significant effect on the revenue earned by PTE PZU on asset management, and consequently on the performance of the "Pension Insurance" segment.

The total effect of the transfer of OFE PZU assets to the Social Insurance Institution as well as other changes to the pension system on the revenue of PTE PZU in 2014 and in the following periods may not be estimated reliably, in particular due to uncertainty as to the final number of members that will continue to transfer premiums to the open-end pension fund, the amount of such premiums and the period during which they will be transferred to OFE PZU, taking into account the method of transferring the pension entitlements of the insured from OFE PZU to the Social Insurance Institution prior to the actual payment of benefits. The Management Board of PZU is of the opinion that the aforementioned changes will not have an effect on the ability of PTE PZU to continue as a going concern in the foreseeable future.

Signatures of members of the Management Board of PZU:

Name	Position	
Andrzej Klesyk	Chairman of the Board	 (signature)
Przemysław Dąbrowski	Member of the Board	 (signature)
Dariusz Krzewina	Member of the Board	 (signature)
Barbara Smalska	Member of the Board	 (signature)
Tomasz Tarkowski	Member of the Board	 (signature)
Ryszard Trepczyński	Member of the Board	 (signature)

Person responsible for preparation of the consolidated financial statements:

Jan Terlecki	Director in charge of reporting	 (signature)

Warsaw, 11 March 2014

Auditor's report

To the annual meeting of the shareholders of PZU Finance AB, corp. id 556972-9832

Report on the annual accounts

We have audited the annual accounts of PZU Finance AB for the financial year 2014-05-28--2014-12-31.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of PZU Finance AB as of 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of PZU Finance AB for the financial year 2014-05-28--2014-12-31.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm

KPMG AB

Mårten Asplund
Authorized Public Accountant

PZU Finance AB (publ)
Org nr 556972-9832

”Office translation”

Annual report for the financial year 2014-05-28 - 2014-12-31

The Board of Directors presents the following annual report

Contents	Page
- Administration Report	2
- Income Statement	4
- Balance Sheet	5
- Statement of changes in equity	7
- Cash flow statement	8
- Notes to the Accounts	9

Unless otherwise stated, all amounts are reported in SEK.

This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern

Administration Report

Information regarding the operations

The PZU Finance AB (Company) was registered 2014-05-28 and this is the company's first financial year. Financial year covers the period of 2014-05-28 – 2014-12-31.

The object of the Company's business is to conduct financial activities primarily through the borrowing of funds by way of issuance of bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit facilities and loans, and to conduct any other activities compatible therewith or to provide any related services. The Company does not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority.

On 3 July 2014, the Company issued senior bonds with nominal value of EUR 500,000,000. The issue price of one bond with a nominal value of EUR 100,000 amounted to EUR 99,407. The duration of the bond is five years and it is listed on the Irish Stock Exchange (ISE) on the basis of a prospectus approved by the Central Bank of Ireland. Additionally bonds are quoted on Alternative Trading System on Warsaw Stock Exchange and BondSpot.

The liabilities of PZU Finance AB arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by Powszechny Zakład Ubezpieczeń SA (PZU) to all bondholders. The maximum value of the guarantee was not specified and it expires upon the expiry of the claims of the bondholders towards PZU Finance AB. The bond bears 1,375 % interest from the date of publication on 3 July, 2014. Interest is paid annually with the first payment on 3 July, 2015.

On 7 July 2014, PZU Finance AB has granted 5-year loan to PZU. Interest of 1,425% is paid annually with the first payment on 29 June, 2015.

Ownership structure

The company is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, reg. no KRS 0000009831 domiciled in Warsaw, Poland.

Significant events during the financial year

Apart from issuance of senior bonds and granting the loan to PZU, there were no significant events in the financial year.

Significant events after the financial year

On 1 January, 2015 the company changed reporting currency from SEK to EUR.

Basic risks and uncertainties

PZU Finance AB overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company.

The Board has the overall responsibility for establishing and monitoring the company's risk management, for additional information see note 2.

Proposed appropriation of profits

The following profits are at the disposal of the Annual General Meeting:

Net profit for the year	<u>48 690</u>
	<u>48 690</u>
amount to be carried forward	<u>48 690</u>
	<u>48 690</u>

Income Statement	Note	2014-05-28 -2014-12-31
Net sales		284 193
Operating expenses		
Other external expenses	3	-717 706
Personnel costs	4	<u>-38 120</u>
Total operating expenses		-755 826
Operating loss		-471 633
Profit/(loss) from financial items		
Financing income	5	180 693 584
Financing cost		<u>-180 158 985</u>
Net financing income		534 599
Profit after financial items		62 966
Income tax	6	<u>-14 276</u>
Net profit for the year		<u>48 690</u>

Statement of comprehensive income has not been established as there have been no transactions to be included in other comprehensive income.

Balance Sheet	Note	2014-12-31
Assets		
Non-current assets	7	
Receivables from parent company	8	<u>4 711 790 135</u>
Total non-current assets		<u>4 711 790 135</u>
Current assets		
Receivables from the parent company		110 000
Prepaid expenses and accrued income	9	37 251 572
Cash and cash equivalents		<u>2 641 383</u>
Total current assets		<u>40 002 955</u>
Total assets		<u>4 751 793 090</u>

Balance Sheet	Note	2014-12-31
Equity and liabilities		
Equity		
<u>Restricted equity</u>		
Share capital		<u>500 000</u>
<u>Non-restricted equity</u>		
Net profit for the year		<u>48 690</u>
Total equity		<u>548 690</u>
	7	
Non-current liabilities		
Bonds issued		<u>4 713 092 740</u>
Total non-current liabilities	8	<u>4 713 092 740</u>
Current liabilities		
Accounts payable - trade		370 279
Current tax liabilities	6	14 276
Other current liabilities		1 149 524
Accrued expenses and deferred income	10	<u>36 617 581</u>
Total current liabilities		<u>38 151 660</u>
Total equity and liabilities		<u>4 751 793 090</u>
Pledged assets		None
Contingent liabilities		None

Statement of changes in equity

	Note	Share capital	Other contributed capital	Retained earnings	Total equity
Equity 2014-05-28		500 000	-	-	500 000
Net profit for the year		-	-	<u>48 690</u>	<u>48 690</u>
Equity 2014-12-31		500 000	0	48 690	548 690

Cash flow statement

2014-05-28
-2014-12-31

Operating activities

Profit after financial items	62 966
Adjustment for non-cash items	-9 879 055
Income tax paid	-
Cash flow from operating activities before changes in working capital	-9 816 089

Increase/decrease in other current receivables	-321 565
Increase/decrease in other current operating liabilities	<u>1 519 803</u>
Cash flow from operating activities	-8 617 851

Investing activities

Loans given to parent company	<u>-4 612 805 652</u>
Cash flow from investing activities	-4 612 805 652

Financing activities

Shares issued	500 000
Bonds issued	<u>4 578 988 176</u>
Cash flow from financing activities	4 579 488 176

Cash and cash equivalents at beginning of the year	-
Cash flow for the year	-41 935 327
Exchange differences	<u>44 576 710</u>

Cash and cash equivalents at the end of the year **2 641 383**

Notes to cash flow statement

Adjustment for non-cash items	
Amortization of bond discount	134 104 564
Accrued expenses and deferred income	36 617 581
Amortization of loan from parent company discount	-98 984 483
Accrued interest income, parent company	-37 040 007
Exchange differences	<u>-44 576 710</u>
Net non-cash items	<u>-9 879 055</u>

Notes

Note 1 Accounting and valuation principles

General information

PZU Finance AB corporate identity number 556972-9832, is a limited liability company registered in Sweden with office in Stockholm. The office address is Sergels Torg 12, 111 57 Stockholm, Sweden. Activities include financial activities and operations as a natural link.

PZU Finance AB is a subsidiary of Powszechny Zaklad Ubezpieczen SA, corporate identity number KRS 0000009831 based in Warsaw, Poland. PZU prepares consolidated financial statement that can be found on their homepage; <https://www.pzu.pl/>

Accounting and valuation principles

The annual report of PZU Finance AB has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that the company so far as possible, applies all EU-approved International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee (IFRIC) as part of the Annual Accounts Act and Security Act, and considered the relationship between accounting and taxation.

The annual report has been prepared on the historical cost basis. The following describes the principal accounting policies adopted.

New and amended standards and interpretations not yet in force

New and amended standards and amendments to RFR 2 that have been issued but which becomes effective for financial years beginning after 1 January, 2015 were not yet applied by the Company. Management believes that the new standards, interpretations and amendments to RFR 2 which has not taken effect is not expected to have any material impact on the Company's financial statements when applied for the first time.

Functional and presentation currency

The Company's reporting currency and the functional currency is Swedish kronor (SEK).

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated to functional currency at the closing date exchange rate. Exchange differences are recognized in the income statement.

Borrowing costs

Borrowing costs are recognized in the income statement in the period in which they arise.

Income taxes

The tax expense represents the sum of current and deferred tax.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable profit differs from the reported results in the income statement when it is adjusted for non-taxable income and non-deductible expenses and income and expense that are taxable or deductible in other periods. The company's current tax is calculated using tax rates that have been enacted by the balance sheet date.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the income statement, except when the tax relates to items recognized in other comprehensive income or directly in equity. In such cases, the tax is also recognized in other comprehensive income or directly in equity.

Financial instruments

A financial asset or financial liability is recognized in the balance sheet when the company becomes part to the instrument's contractual terms. A receivable is recognized when the company has performed and a contractual obligation exists for the counterparty to pay, even if an invoice has not been sent. Liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if an invoice has not been received.

A financial asset is removed from the balance sheet when the contractual rights are realized, lose their validity or the company loses control of them. A financial liability is removed from the balance sheet when the contractual obligation is fulfilled or when extinguished in other way.

The Company's financial instruments consist mainly of loan receivables from parent company and bonds. These are presented initially to acquisition value plus (deductions) transaction costs.

Loans and bonds are recognized at amortized cost using the effective interest method and interest income and expenses are recognized using the effective interest method. The effective interest rate is the rate that discounts estimated future payments during a financial instrument's expected duration of the financial asset or liability's net value. The calculation includes all paid or received fees by contractors, such as transaction costs and all premiums and discounts.

At each reporting date the Company assesses whether there is a need for the loan to be impaired by searching for objective evidence. Objective evidence consists of observable circumstances that have occurred and have a negative impact on the ability to recover the acquisition cost. If objective evidence exists, expected future cash flows will be discounted using the original effective interest rate. If the present value is lower than the carrying amount, the impairment is presented in profit/loss for the year.

Property, plant and equipment

Fixed assets are recognized at acquisition cost. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition.

Current assets

Current assets are reported at the lower of acquisition cost and net realizable value. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition. Net realizable value is defined as the sales value less estimated selling expenses.

Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Shareholder contributions

Shareholders' contributions are recognized in equity.

Contingent liabilities

A contingent liability is a possible obligation arising from past events and whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company that may occur or does not occur, or a present obligation arising from past events, but not recognized as a liability or provision if it is not probable that an outflow of resources will be required to settle the obligation or the obligation cannot be measured with sufficient reliability.

Contingent assets

A contingent asset is a possible asset arising from past events whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company occurring or not occurring. A contingent asset is not recognized as an asset in the balance sheet.

Cash flow Statement

The cash flow statement shows the company's changes in the company's cash and cash equivalents during the financial year. The cash flow statement has been prepared using the indirect method.

Note 2 Financial risk management and financial instruments

The Company is exposed to various types of financial risks, including market, liquidity and credit risks through its business activities. Market risks primarily consist of interest rate risk. It is the board of directors ultimately responsible managing and monitoring of the Company's exposure of financial risks. The frameworks relating to exposure, management and monitoring of financial risks are determined by the board.

Market risk

Currency risk

Market risk can be the risk that a change in market prices will affect a company's income or the value of its holdings of financial instruments.

PZU Finance AB is not exposed to significant currency risk as the loan to the parent company and the issued bonds are of similar amount in the same currency (euro).

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates.

The company's interest rate risk profile of the interest-bearing financial instruments was:

	2014-12-31 SEK
<u>Fixed interest rate (excluding interest accrued)</u>	
Receivables from parent company	4 711 790 135
Bond loans	4 713 092 740

The Company has minimized the interest rate risk by matching the loan obligations with the obligations of the bond.

Liquidity and financing risk

Liquidity risk can be the risk that a Company will encounter difficulty in meeting obligations arising from its financial liabilities which shall be settled by way of cash payment.

PZU Finance AB's obligation to the bondholders includes annual interest payments and the final repayment at maturity.

The bond is guaranteed by the parent company Powszechny Zakład Ubezpieczeń SA which minimizes the possible liquidity risk for the company.

The financing risk is the risk that the Company cannot raise sufficient funds at a reasonable cost. Maturity distribution of contractual payment obligations related to the Company's financial liabilities are presented in the table below.

The figures in the table are not discounted values and they include, where appropriate, interest payments, which means that these amounts are not possible to reconcile the amounts reported in the balance sheets. Interest payments are determined based on the conditions prevailing at the balance sheet date.

The Company's loan agreements contain no terms that could cause actual payment date will be substantially earlier than indicated in the table.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to bondholders	-	74 032 000	4 974 768 740	-	5 048 800 740
Account payable – trade	370 279	-	-	-	370 279
Other current liabilities	1 149 524	-	-	-	1 149 524
Total	1 519 803	74 032 000	4 974 768 740	-	5 050 320 543

Credit risk

Credit risk can be the risk of financial loss to a company if a counterparty fails to fulfill its contractual obligations.

PZU Finance AB exposure to credit risk relates only to loans granting to the parent company.

The total value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at year end were as follows:

	2014-12-31 SEK
Receivables from parent company	4 711 790 135
Cash and cash balances	<u>2 641 383</u>
	4 714 431 518

The Company's cash is placed at Nordea Bank, Sweden

Operational risk

Operational risk can be the risk of direct or indirect loss arising from a variety of occasions associated with a company's processes, personnel, infrastructure and from external factors other than credit, market and liquidity risks such as those derived from regulations and generally accepted customs. Operational risk arises from all of a Company's activities.

The Company was formed with the purpose to engage in the activities described in the previous paragraph on the company's operations.

The operational risk of the company is reduced by the board's continuous monitoring of the company's financial statements and a general business knowledge.

Note 3 Audit fees of the year

	2014-05-28
	<u>-2014-12-31</u>
<u>KPMG AB</u>	
Audit fees	50 000
Total	<u>50 000</u>

Note 4 Personnel expenses

	2014-05-28
	<u>-2014-12-31</u>
Wages, salaries, social security and pension costs	
Wages and salaries	27 382
Compulsory social security contributions	9 114
Other personnel costs	<u>1 624</u>
Total	<u>38 120</u>

Note 5 Other interest income and similar profit/loss items

	2014-05-28
	<u>-2014-12-31</u>
Interest income	36 063 805
Ex-change rate changes	<u>144 629 779</u>
Total	<u>180 693 584</u>

Note 6 Tax on profit for the year

	2014-05-28 <u>-2014-12-31</u>
Tax on profit for the year	<u>14 276</u>
Total	<u>14 276</u>
	<u>%</u> <u>2014</u>
Result before tax	62 966
Tax rate	22% 13 853
Non-deductible costs	423
Non-taxable income	
Tax on profit for the year	22.7% 14 276

Note 7 Financial assets and liabilities specified by category

Assets 2014

Book value

Loan to parent company	4 711 790 315
Receivables from parent company	110 000
Prepaid expenses and accrued income	37 251 572
Cash and cash equivalents	2 641 383
Total	4 751 793 270

Assets

Fair value

Loan to parent company	4 829 592 700
Receivables from parent company	110 000
Prepaid expenses and accrued income	37 251 572
Cash and cash equivalents	2 641 383
Total	4 869 595 655

Liabilities 2014

Book value

Bonds issued	4 713 092 740
Account payable - trade	370 279
Current tax liabilities	14 276
Accrued expenses and deferred income	36 617 581

Other current liabilities	1 149 524
Total	4 751 244 400

Liabilities

Fair value

Bonds issued	4 830 895 305
Account payable - trade	370 279
Current tax liabilities	14 276
Accrued expenses and deferred income	36 617 581
Other current liabilities	1 149 524
Total	4 869 046 965

The book value of financial instruments for which fair value is not listed above constitutes a reasonable approximation of fair value, when duration is short.

The information about fair value of loans and bonds belong to level 2 in the fair value hierarchy and are valued at the fair value that is listed for the bond issue in Ireland Stock Exchange. The loan is valued to the same value as the bond as the parent company guarantees the bond.

Note 8 Transactions with related parties

2014

Disclosure regarding the parent company

The company is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, domiciled in Warsaw, Poland.

Receivables with parent company

Powszechny Zakład Ubezpieczeń S.A	4 711 790 135
Accrued interest income	37 040 006
Total	<u>4 748 830 141</u>

The receivable bear an interest of 1,425% with effect from 7 July 2014.

Income and costs regarding parent company

Revenue, parent company	284 193
Interest income, parent company	37 040 006
Total	<u>37 324 199</u>

Additionally, PZU has guaranteed the bond issue for EUR 500,000,000 dated 3 July 2014 along with interests.

Note 9 Prepaid expenses and accrued income

	<u>2014-12-31</u>
Accrued interest income	37 040 007
Other items	<u>211 565</u>
Total	<u>37 251 572</u>

Note 10 Accrued expenses and deferred income

	<u>2014-12-31</u>
Accrued interest expenses	36 567 581
Accrued audit fees	<u>50 000</u>
Total	<u>36 617 581</u>

Stockholm 2015-06-

Agnieszka Karbowiak

Mariusz Porebski

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Our audit report has been issued 2015-06

KPMG AB

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