PZU FINANCE AB (PUBL)

(*incorporated in Sweden with limited liability*)

EUR 500,000,000

1.375 per cent. Guaranteed Notes due 2019

Guaranteed by

POWSZECHNY ZAKŁAD UBEZPIECZEŃ S.A.

(*incorporated in Poland with limited liability*)

Issue Price: 99.407 per cent.

The Prospectus has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under Directive 2003/71/EC (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (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 EUR 500,000,000 1.375 per cent. Guaranteed Notes due 2019 (the "**Notes**") of PZU Finance AB (publ) (the "**Issuer**"), guaranteed by Powszechny Zakład Ubezpieczeń S.A. (the "**Guarantor**"), which are to be admitted to trading on the regulated market (the "**Market**") of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") or other regulated markets 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 Notes to be admitted to the Official List of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market.

Interest on the Notes is payable annually in arrear on3 July in each year. Payments on the Notes will be made without deduction for or on account of taxes in Sweden and Poland to the extent described under "*Terms and Conditions of the Notes - Taxation*".

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 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 OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations, and neither this Prospectus nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

The 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 3 July 2014 (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 Notes will be rated A- (outlook stable) by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). The Guarantor's financial strength rating from 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*).

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 10.

Joint Lead Managers

BOFA MERRILL LYNCH **CITIGROUP**
DEUTSCHE BANK **GOLDMAN SACHS INTERNATIONAL**
UBS INVESTMENT BANK

Co-managers

BARCLAYS **ING**
MBANK **PKO BP**
BANCO SANTANDER S.A. **SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**
UNICREDIT BANK

The date of this Prospectus is 1 July 2014

This Prospectus constitutes a prospectus for the purpose of Article 5 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Guarantor and its subsidiaries and affiliates together, (the "**Group**"), and the Notes which, according to the particular nature of the Issuer, the Guarantor and the 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 of the rights attaching to the 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 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 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 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 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 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 Notes and the distribution of this Prospectus and other offering material relating to the 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**", "**kronor**" and "**SEK**" refer to Swedish kronor, references to "**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 Notes, Citigroup Global Markets Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot 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 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 Notes and 60 days after the date of the allotment of the 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 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 Notes, the merits and risks of investing in the 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 Notes and the impact the 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 Notes;

(iv) understand thoroughly the terms of the 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 the Group and set out in this document has been derived from:

- the Group's unaudited interim consolidated financial statements as at, and for the three months ended, 31 March 2014 (the "**Interim Financial Statements**");
- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2013 (the "**2013 Financial Statements**"); and
- the Group's audited consolidated financial statements as at, and for the year ended, 31 December 2012 (the "**2012 Financial Statements**" and, together with the 2013 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 5 to the 2013 Financial Statements) and information relating to own funds and solvency margins (note 8 to the 2013 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 not been audited or reviewed and, accordingly, all financial information in this document as at, and for the three month periods ended, 31 March 2014 and 31 March 2013 is unaudited. The Interim Financial Statements are not appended to this Prospectus in full.

The Annual Financial Statements have been audited by Deloitte Polska 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 Auditors have issued unqualified audit reports in respect of each of 2013 and 2012. In accordance with applicable Polish legal requirements which require an insurance company's auditor to be changed every five years, the Group has changed its auditor for 2014.

The Group's financial year ends on 31 December and, save where the context does not permit, references in this Prospectus to **2013** and **2012** are to the 12-month period ended on 31 December of such year.

Restatement of the certain line items in the 2013 Financial Statements

In the Interim Financial Statements, the Group restated certain audited 2013 financial data in accordance with the requirements of International Financial Reporting Standard No. 10 "Consolidated Financial Statements" ("**IFRS 10**"), which it implemented from 1 January 2014. For a description of these restatements, see "*Description of the Guarantor – Recent developments*".

There were no material restatements made to the Annual Financial Statements.

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

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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.
Registrar:	Deutsche Bank Luxembourg S.A.
The Issue:	EUR 500,000,000 1.375 per cent. Guaranteed Notes due 2019.
Issue Price:	99.407 per cent. of the principal amount of the Notes.
Issue Date:	3 July 2014.
Maturity Date:	3 July 2019.
Interest Rate:	The Notes will bear interest at the rate of 1.375 per cent. per annum from and including 3 July 2014 to but excluding the Maturity Date (as defined in "*Terms and Conditions of the Notes*").
Yield:	1.499 per cent.
Interest Payment Dates:	Interest will be payable annually in arrear on 3 July in each year, commencing on 3 July 2015.
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.
Ranking:	The Notes constitute direct, general, unconditional and (subject to Condition 5) 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.
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(b).
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(c).
Negative Pledge:	The terms of the Notes will include a negative pledge as described in

	Condition 5.
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).
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).
Use of Proceeds:	The net proceeds of the issue of the Notes, amounting to approximately EUR 496,335,000 after the deduction of expenses in connection with the issuance of the Notes, will be used by the Issuer for general corporate purposes.
Form of the Notes:	The 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 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 "*Summary of Provisions Relating to the Notes in Global Form*". 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 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: 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 Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom, Sweden and Poland. See "*Subscription and Sale*".
Ratings:	The Notes will be rated A- by S&P. The Guarantor's Financial Strength Rating from 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.
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 10.

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 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, nearly all 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 2013, the Group's investment portfolio included PLN 32.7 billion of Polish treasury securities, which (together with contingent transactions) accounted for 59.7 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 such credit rating 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 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 through both writing healthcare policies and owning and managing outpatient and diagnostic clinics, the Group will be faced with new challenges which will require new skillsets and appropriate law changes. 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 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 and, in particular in recent years, the crisis in the international financial markets and the decline of macroeconomic conditions in Europe, including Poland. The resulting slowdown in economic growth, erosion of trust in financial institutions, restricted access to the interbank market and other forms of financing, increasing unemployment rates and declines in stock market valuations caused disruptions in financial markets worldwide, impacting liquidity and funding in the international banking system. This situation had a significant adverse effect on the valuation of assets and capital adequacy requirements for many financial institutions worldwide. As a result of the crisis, access to capital and credit markets and to other available forms of financing and liquidity were significantly impaired, and the cost of financing increased considerably.

While access to capital and credit markets improved markedly during 2013, including a reduction in credit spreads and an increase in issuance activity by corporations and financial institutions, there is a risk that these conditions may deteriorate if the global economy or emerging markets weaken. Many emerging market currencies fell significantly against the U.S. dollar during 2013. Ongoing volatility in emerging market currencies has resulted in investors retreating from riskier asset classes such as emerging market equities and debt.

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, 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.

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 2013, investments in these listed shares constituted about 5.9 per cent. of the Group's investment portfolio. Polish pension fund reform may increase volatility in the Polish equity market and may negatively impact the market in the short term.

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

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 property and casualty segment and in the traditional life insurance segment, in particular with respect to premium-generating 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 may decrease or increase in the event of fluctuations in the interest rates used to estimate the European Embedded Value.

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.

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 fee income 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. These have increased in recent years. 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. 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 future acquisitions effectively

As part of the Group's growth strategy, the Group may seek to acquire other companies. For example, in April 2014, the Group announced that it had agreed to acquire certain RSA Insurance Group companies in Poland and in the Baltic States and, in May 2014, the Group acquired two companies engaged in the medical field from PKN Orlen and Anwil. 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.

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 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 91.3 per cent of PZU's statutory net profit for 2013 and 99.4 per cent of PZU's statutory net profit for 2012. The total dividend expected to be paid out for 2013 is PLN 4.7 billion and is higher than the Group's consolidated net profit for 2013 which was PLN 3.3 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.

It is still uncertain how the Solvency II rules will be introduced to the Polish legal system and the manner in which these rules will be implemented. The Group therefore 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.

PZU and PZU Życie may be required to raise additional capital in the future to maintain their capital requirements above the minimum-required levels, including new levels required as a result of the implementation of Solvency II. The Group cannot be sure that it will be able to obtain such capital on favourable terms in a timely manner or at all. If the Group fails to obtain necessary financing and fails to maintain the minimum solvency margins and other capital requirements, 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 Mediation 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 Mediation Directive ("**IMD2**"). 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 IMD2 will extend the scope of the current Insurance Mediation 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 IMD2, 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 31 March 2014, the Group was party to approximately 66,845 court and arbitration proceedings, the total aggregate value of such claims being PLN 2.7 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 174 million provisions related to non-insurance cases. 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 Komisja Nadzoru Finansowego (the "**KNF**"), the Polish financial supervisory authority, has proposed Regulation U which, if implemented, is likely to result, in increased costs for the Group and may prevent the Group from pursuing some of its business opportunities. 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. For example, the recent acquisition of certain RSA Insurance Group companies requires consent from a number of regulatory bodies in Poland, Estonia, Latvia, Lithuania and Ukraine and there is no guarantee that all these consents will be given. 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 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 2015. It is also expected that insurance companies will have a preparatory period of three years, which means the standard is likely to come into effect on 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 bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit loan facilities and loans, and conducting any other activities compatible therewith or to provide related services. The Issuer is not conducting activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other company.

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. 1346/200 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, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will 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.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

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).

If a payment were to be made or collected through a 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 a Member State that is not obliged to withhold or deduct tax pursuant to the 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 Notes 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 in respect of such holding (should definitive Notes 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 Notes are issued, holders should be aware that definitive Notes 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 on or prior to the Issue Date 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 500,000,000 1.375 per cent. Guaranteed Notes due 2019 (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) constituted by and 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 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 will be 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 Note bears interest from 3 July 2014 (the "**Issue Date**") 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) the Issue Date or any Interest Payment 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; and

(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 (*upadlość*) 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 Notes, after deduction of the total expenses related to the admission to trading, expected to amount to approximately EUR 496,335,000 less fees and certain expenses, 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 laws of the Kingdom of Sweden, 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 Sergels Torg 12, 12th floor, P.O. Box 162 85, SE – 103 25 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 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".

Since the date of its incorporation, the Issuer has not made any significant investments and, as at the date of this Prospectus, the Issuer is not committed to any significant investments. However, it is intended that the Issuer will lend funds to the Guarantor and group companies under intercompany loan agreements.

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 SEK 500,000 and not more than SEK 2,000,000 (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 Karbowiak, Mariusz Porebski and Josefin Grolander Alvén. Their business address is c/o PZU Finance AB (publ), Sergels Torg 12, 12th floor, P.O. Box 162 85, SE – 103 25 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.

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 at 31 December 2013. In 2013, the Group's gross written premiums amounted to PLN 16.5 billion and it generated an operating profit of PLN 4.2 billion. As of 31 December 2013 the Group's total assets were PLN 62.4 billion, it had net cash after deducting borrowings of PLN 321 million and a Solvency I ratio of 352 per cent.

The Group operates four main lines of business:

- non-life insurance, principally offered by PZU in Poland, which generated 50.2 per cent. of the Group's total gross written premium, and 34.9 per cent. of its operating profit, in 2013. According to KNF, PZU's share of the Polish non-life insurance market (measured in terms of gross written premiums) was 31.1 per cent. in 2013;

- life insurance, principally offered by Powszechny Zakład Ubezpieczeń na Życie S.A. ("**PZU Życie**") in Poland, which generated 47.0 per cent. of the Group's gross written premium, and 41.7 per cent. of its operating profit, in 2013. According to KNF, PZU Życie's share of the Polish life insurance market in terms of regular premium was 43.3 per cent. in 2013;

- 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 the Chamber of Fund and Asset Managers as at 31 December 2013 maintained the leading position in the investment funds market with a share of 11.8% and net assets under management of PLN 22.2 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 20.5 billion at 31 May 2014). In 2013, PTE PZU generated a net profit of PLN 137 million, which represented 3.3 per cent. of the Group's net profit for that year.

The Group's operations in Poland generated 97.2 per cent. of its gross written premiums in 2013 and accounted for 99.6 per cent. of its total assets at 31 December 2013. 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 2013. With the recently announced acquisition of certain RSA Insurance Group companies in the three Baltic States, the Group intends to expand its business in these countries, see "*Recent developments*" below.

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.

PZU is a joint-stock company and its shares are traded on the Warsaw Stock Exchange (the "**WSE**"). It is established under Polish law for an indefinite period. Its National Court Register registration number is

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

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.

In 2002, PZU acquired shares in UAB DK "Lindra" (currently UAB DK PZU Lietuva ("**PZU Lietuva**")) and commenced non-life insurance activity in the Lithuanian market. In 2005, PZU purchased shares in OJSC "Skide-West" (currently PrJSC IC PZU Ukraine ("**PZU Ukraine**")) and started activities in the Ukrainian non-life insurance market. In late 2012 and in mid-2013, PZU began selling insurance in Latvia and Estonia, respectively. In April 2014, PZU announced the acquisition of certain RSA Insurance Group companies in Poland and the three Baltic States, see "*Recent developments*" below.

STRATEGY

The Management Board adopted a new development strategy - the PZU 2.0 Strategy - in December 2011 and updated the strategy in December 2013. PZU's goal is to become the largest and the most profitable insurance company in Central and Eastern Europe.

PZU's current strategy is based on the following principles:

Focusing on customer needs

Based on an analysis of customer needs undertaken by each of PZU's individual business segments, PZU is focusing on delivering products and services that are tailored to its customers' requirements through a multi-channel, integrated system of sales and service, see "*Product distribution in Poland*" below. For example, during 2014, PZU intends focus on improving its professionalism and quality of service as regards its corporate customers as these are the primary factors determining their choice of insurer. In particular, PZU intends to support its corporate customers in the development of their businesses, including developing consulting services on risk engineering. In the mass market, PZU intends to continue to introduce new savings and investment products, particularly long-term savings products with a view to increasing its life insurance business. In addition, in the group insurance market, PZU intends to offer new health and drug insurance policies as part of its strategy to aggressively grow its health insurance and build a leading health provider position.

Improving operational efficiency

PZU intends to introduce further automated back office processes to increase its operational efficiency. In particular, in 2013 PZU piloted a new IT system for non-life insurance products which represents a significant technological advance and is intended to improve customer relationship management. PZU intends to concentrate on the full implementation of this new system during 2014. PZU also expects to introduce new motor, home and property insurance products by the end of 2014. PZU is also introducing a new policy system for handling mass market and SME motor, home and certain other non-life insurance products.

Ensuring employee professionalism and commitment

PZU intends to maintain its position as a preferred employer, as evidenced by the leading Polish employers rankings. In 2013 PZU was listed in the top ten Polish employers in Best Employers AIESEC ranking and in top the fifteen Universum's Ideal Employer Ranking in Poland. It intends to do this through a continued focus on developing its employees' skills and competencies under its 'Program Plus' programme and through its MBA programme, which is aimed at managers and directors with the highest development potential. PZU also aims to build a results-oriented organisational culture by further developing modern management tools such as its annual performance review and MBO system. It will follow this with a specially designed management development programme – Manager 2.0. which will apply new technologies to the learning and development process. PZU will continue the implementation of IT tools that will allow it to gather and analyse more adequate and precise data about employees and processes performance.

Leveraging the high level of recognition of PZU's strong brand

Based on the study conducted by GfK Polonia in May 2014 (which sampled 1500 representative Poles), PZU has the highest level of brand recognition in Poland. PZU intends to maintain this level of brand recognition through coherent campaigns supporting its positioning as a client friendly and trusted company. PZU also presents itself as an institution that successfully manages its customers' funds by leveraging the fact that it is the largest asset management company in Poland.

In 2013 PZU modernised its logo to convey a modern and client friendly approach. It is hoped that this rebrand will help to convince younger customers to use PZU.

Maintaining a high return on equity

The Group's principle financial objective is to maintain a high return on equity and to achieve this the Group will seek to maintain its position as one of the largest insurance groups in Central and Eastern Europe. In particular, the Group will aim to:

- maintain its present position in the market for both non-life and life insurance in Poland and maintain the profitability of these businesses;
- continue its expansion in Central and Eastern Europe, see "*Recent developments*" below;
- develop its activities on the savings market; and
- seek new business opportunities, for example through aggressively developing its health insurance business in Poland to become a leading health insurance provider, see "*Recent developments*" below.

Implementing a new investment policy

PZU is in the process of implementing a new investment policy and re-modelling its investment portfolio. In particular, PZU intends to finance large projects and to purchase and lease real property. These activities are designed to provide longer-term investment income and to reduce the current volatility of results from the Group's investment activities.

COMPETITIVE STRENGTHS

The main competitive strengths of the Group are:

Clear market leader in Poland with a growing presence in foreign markets

The Group is the largest insurance group in Poland. According to the KNF, as of 31 December 2013, the Group's market share in regular premium life insurance (measured by gross premiums written during the year) was approximately 43.3 per cent. and, in non-life insurance, it was approximately 31.1 per cent. In 2013, 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 Asset Managers, as of 31 May 2014, TFI PZU was the leading asset manager in Poland with net assets under management of PLN 23.7 billion.

The Group is also developing its insurance business in selected countries of Central and Eastern Europe and currently has a presence in Ukraine, Lithuania, Latvia and Estonia. In Lithuania, it collected 13.6 per cent. of the gross written premiums in non-life insurance in 2013, making it the third largest non-life insurance provider in that market. The recently announced acquisition of certain RSA Insurance Group companies will, if and when completed, make the Group the largest insurer in each of Lithuania and Latvia based on the combined gross written premiums of the Group.

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 2013, 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: 412 own sales outlets, approximately 8,400 agents, the Group's employees, as well as banks and electronic distribution channels. In the group life insurance segment, distributed by approximately 530 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 2013, the PZU brand was valued at more than PLN 2.3 billion, making it the fourth most valuable Polish brand in 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 each of 2013 and 2012, the Group reported net profit of PLN 3.3 billion, and a return on equity of 24.1 per cent in 2013 and 24.0 per cent in 2012. PZU's return on equity averaged 22 per cent. over the last five years, its key competitors together averaged 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

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

SME and corporate customers. This allowed the Group to achieve a margin ratio of group and continued life insurance, without one-offs, in 2013 and 2012 of 23.0 per cent. and 24.5 per cent., respectively. In the non-life insurance business, the Group's combined ratio in 2013 and 2012 amounted to 87.8 per cent. and 92.8 per cent., respectively.

The Group also has a highly regarded claims handling process, with a satisfaction index in relation to claims handling in 2013 of 91 per cent. and high net promoter scores, see "*Claims handling in Poland*" below. In March 2014, the Group introduced a direct claims handling process which it believes will transform the motor third party liability market. This process allows insureds with PZU-written motor third party liability policies who are involved in accidents in respect of which they have a claim to seek immediate indemnification from PZU which then assumes and processes the claim against the third party's insurance company.

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 2013, the Group's total equity amounted to PLN 13.1 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 2013 and 31 December 2012, the Group's Solvency I ratio was 351.8 per cent. and 402.8 per cent., respectively compared to median levels for European non-life insurers of 280 per cent. and 210 per cent. for life insurers in Europe as 31 December 2013. 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, life insurance written by PZU Życie, investment activities, insurance activities in the Baltic States and Ukraine and pensions. The Group's segment reporting is prepared in both IFRS and PAS, as described in detail in note 5 to the 2013 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 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 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 insurer (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 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 2013 and 2012 which is derived from note 5.7 to the 2013 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 5 to the 2013 Financial Statements.

2013	PZU		PZU Życie			PZU and 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
					(PLN millions)					
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	305	89	897	7	24	12	2,488
Claims net of reinsurance	(854)	(4,193)	4,300	(627)	(1,330)	—	(139)	(81)	—	(11,161)
Insurance result/operating profit	391	1,067	1,603	140	11	897	1	16	137	4,181

2012	PZU		PZU Życie			PZU and 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
					(PLN millions)					
Gross written premium	1,840	6,614	6,364	1,090	1,859	—	196	142	—	16,243
Net earned premium	1,764	6,513	6,362	1,092	1,859	—	172	103	—	16,005
Net investment income	127	537	955	347	191	1,525	10	18	13	3,705
Claims net of reinsurance	(1,174)	(4,299)	(4,144)	(605)	(3,185)	—	(112)	(54)	—	(12,219)
Insurance result/operating profit	218	800	1,373	105	1	1,525	2	10	98	4,080

Corporate and retail non-life insurance written by PZU

Overview

PZU conducts 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 2013. 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 2013 and according to PAS, PZU collected gross written premiums of PLN 8.3 billion, settled gross claims and benefits amounting to PLN 4.3 billion and generated a net profit of PLN 5.1 billion, of which PLN 3.8 billion was the dividend from PZU Życie. In 2013, PZU's combined ratio for non-life insurance was 87.3 per cent.

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 29.5 per cent. in 2013. 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 for safe drivers, a motor assistance package, insurance for 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.

Property insurance, which is also provided to both corporate and retail customers, is PZU's second most important category of insurance products, accounting for 11.5 per cent. of gross written premiums in 2013. 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

In 2013 and according to KNF, PZU's share of the Polish non-life insurance market, based on gross premiums written in 2013, was 31.1 per cent. PZU has a strong market position in motor own damage insurance for individual customers, with a 33.0 per cent. market share in 2013. In 2013, PZU's market share in motor insurance for corporate customers was 49.2 per cent. in motor third party liability insurance and 43.6 per cent. in motor own damage insurance. PZU's operating profit (technical result) from its motor insurance business was PLN 369 million in 2013 compared with PLN 406 million in 2012.

Clients' categories

PZU categorises its clients as corporate, SME 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;
- all other business entities are classified as SMEs; and
- mass clients are natural persons.

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 created 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 created 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 Lithuanian and Ukrainian insurance companies. It also provides limited reinsurance to third party insurers. In 2013, PZU's gross written premiums from reinsurance provided to third party insurers were less than 1 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 security 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 2013 and according to PAS, PZU Życie collected gross written premiums of PLN 8.8 billion, settled gross claims and benefits amounting to PLN 6.2 billion and generated a net result of PLN 1.7 billion.

The greatest contribution to the gross written premiums gathered by PZU Życie is from group and individually continued life insurance. In 2013, gross written premiums in this segment amounted to PLN 6.4 billion, or 72.5 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 530 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. SME group insurance is distributed through agents and brokers.

Group life insurance products are also offered through the bancassurance channel, where it is generally entered into in combination with a borrowing, such as a mortgage loan. If the insured event specified in the agreement occurs, PZU Życie will typically assume responsibility to repay the outstanding debt balance. The scope of the insurance may cover the insured's death, incapacitation or inability to work, either as a result of sickness or accident.

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 (additional group health 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.

- *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 tax-efficient 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 a tax-efficient medium-term 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 in the form of group insurance 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 in the form of group insurance through the bancassurance channel.

- To tailor its product mix, PZU Życie has been phasing out unit-linked life insurance sold by agents since the start of 2014.

- *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 2013, PZU Życie served approximately 12 million customers, out of which 7 million clients were insured through group policies.

In 2013 and according to KNF, PZU Życie had a 28.3 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 43.3 per cent.

The ratio of PZU Życie's technical result to gross written premiums in 2013 was four times as high as the ratio achieved by all other Polish companies offering life insurance (20.6 per cent. compared to 5.3 per cent.). The operating profit of the Group life and continued business declined by 5.4 per cent. from PLN 1,561 million to PLN 1,476 million (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, 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 created 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 2012 to 2014 in relation to its investment portfolios relating to own risk are:

- the optimisation of asset profitability based on a defined level of risk appetite;
- profit and loss volatility management;
- the creation of an infrastructure that will support active risk management in periods of market stress; and
- diversification of asset portfolio.

The Group aims to achieve these goals through:

- increasing the share of absolute return portfolios and reducing the share of index benchmarked portfolios;
- increasing its exposure to corporate debt and alternative assets (including private equity), infrastructure projects and real estate business development; and
- establishing a clear segregation of asset management responsibilities within the Group.

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 bond) 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 require the approval of different bodies based on the asset type and the amount to be invested. In certain cases, the Chief Investment Officer together with either the Head of Treasury or the Head of the Structured Investment Bureau can approve of an investment decision provided that it is within the appropriate limits set and accompanied by a positive risk opinion. In other cases, ALCO, Management Board or Supervisory Council approve the investment decisions according to internal regulations.

The table below shows the Group's investments including financial assets (including financial assets at the policyholder's risk, investment properties and financial obligations (negative valuation of derivative instruments and reverse repo obligations) as at 31 December 2013 and 31 December 2012.

	2013		2012	
	(*PLN million*)	(*% of total*)	(*PLN million*)	(*% of total*)
Equity instruments including:	6,244	12.3	6,326	12.6
Equity instruments, for which fair value can be determined – listed	3,386	6.7	2,404	4.8
Equity instruments, for which fair value can be determined – other	2,855	5.6	3,796	7.6
Equity instruments, for which fair value cannot be determined	3	0.0	126	0.3
Interest-bearing financial assets, including:	43,060	84.8	43,093	86.2
Debt securities – government	33,388	65.7	33,495	67.0
Debt securities – other	2,769	5.5	2,435	4.9
Buy-sell back and sell-buy back transactions and term deposits with credit institutions (net)	5,181	10.2	6,142	12.3
Loans.................................	1,722	3.4	1,021	2.0
Investment property	1,475	2.9	565	1.1
Derivatives (net value)............	22	0.0	34	0.1
Total	**50,802**	**100,0**	**50,018**	**100,0**

As of 31 December 2013, the total amount of net assets where the investment risk is borne by the policyholders (unit-linked products) was PLN 4,758 million (PLN 4,125 million as of 31 December 2012). The line "Equity instruments, for which fair value can be determined – other" consist predominantly of net assets where the investment risk is borne by the policyholders. The line "Equity instruments, for which fair value can be determined- listed" consists of assets on which the Group carries risk.

In 2013, 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 "Investment property" line increased in 2013 mainly due to the consolidation of real estate funds which were not fully consolidated in 2012.

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. At the end of 2013, 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 13.6 per cent. of all participants of open-ended pension funds in Poland at 31 December 2013. In 2013, PTE PZU's operating profit was PLN 137 million, or 3.3 per cent of the Group's operating profit. The pending pension reform may lead to a significant reduction of the role of the pension funds in the Polish pension system because the pension premiums of a large part of the population may be transferred from the pension funds to the state-controlled Social Pension Office ("**ZUS**"). Therefore, the financial results of PTE PZU may decrease in the future.

Baltic States

In the Baltic States, the Group conducts its non-life insurance business through UAB DK PZU Lietuva ("**PZU Lithuania**") and its life insurance business through UAB PZU Lietuva Gyvybës Draudimas ("**PZU Lithuania Life**").

In 2013, PZU Lithuania had gross written premiums of LTL 189 million and PZU Lithuania Life had gross written premiums of LTL 26 million.

In 2013, PZU Lithuania was the third largest non-life insurer in Lithuania with a market share of 13.6 per cent. of total gross written premiums according to the Lithuanian central bank. In comparison, PZU Lithuania Life's share of the life insurance market in Lithuania was 4.2 per cent. of total gross written premiums according to the Lithuanian central bank.

PZU Lithuania opened its Latvian branch in October 2012 (with the first sales taking place in December 2012) and its Estonian branch in November 2012 (with the first sales taking place in June 2013).

In April 2014, PZU announced the acquisition of certain RSA Group Insurance companies in the three Baltic States, see "*Recent developments*" below.

Ukraine

In Ukraine, the Group conducts its non-life insurance business through PrJSC IC PZU Ukraine (**"PZU Ukraine"**) and its life insurance business through PrJSC IC PZU Ukraine Life Insurance ("**PZU Ukraine Life**"). In 2013, PZU Ukraine had the gross written premiums of UAH 404 million and PZU Ukraine Life had gross written premiums of UAH 120 million.

In 2013, PZU Ukraine had a 3.5 per cent. share of the gross written premiums in the regular Ukrainian non-life insurance sector, which gave it tenth place in the market according to the State Commission for Regulation of Financial Services Markets of Ukraine and Insurance TOP. In the life insurance market, PZU Ukraine Life achieved seventh place in 2013 with a market share of 4.8 per cent. compared to the leading share of 22.5 per cent., according to the State Commission for Regulation of Financial Services Markets of Ukraine and Insurance TOP.

The crisis developing in East Ukraine and its economic effects, including the devaluation of the Ukrainian currency, may affect the contribution of the Ukrainian operations to the Group's net profits in the future.

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. Field agents sell the Group's 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 2013, the Group co-operated with approximately 8,400 exclusive insurance agents;

- agencies offering products of various insurance companies: these are insurance agents who co-operate with several insurance companies. These agents conduct business mainly in travel agencies, insurance sales offices and car dealerships, as well as in municipality offices. As of 31 December 2013, the Group co-operated with approximately 2,200 multi-agents. These agents mainly sell motor 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 2013, the Group co-operated with a total of approximately 880 brokers;

- the Group's employees: as of 31 December 2013, the Group had approximately 800 employees dedicated for corporate and group business and approximately 1,600 employees supporting sales through the Group’s network;

- banks offering bancassurance products and partners co-operating with the Group under strategic partnership programmes;

- 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. PZU expects to strengthen its direct sales offering following the recently announced acquisition of a direct insurer from RSA Insurance Group, see “*Recent developments*” below; and

- 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 believes that the quality of its claims handling process is of material importance to its customers. According to a survey conducted by PZU on a group of more than 20,000 customers (from both PZU and PZU Życie), the satisfaction index in relation to claims handling in 2013 was 91 per cent. The

NPS (*Net Promoter Score*) recommendation index among the customers who participated in the claims handling process was 29. This represents the difference between the proportion of promoters and critics participating in the survey and indicates that they are active promoters of PZU. Additionally, 50 per cent. of surveyed customers indicated that they are active promoters of PZU.

In April 2014, PZU introduced, a direct claims handling service, which was a market first. This service allows its client to settle third part liability claims directly with PZU. It is hoped that this will add value for PZU's customers.

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 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 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) and its solvency margin ratio (being the excess of its own funds over its required solvency margin), in each case as of 31 March 2014, 31 December 2013 and 31 December 2012 and calculated in accordance with PAS.

Company	**31 March 2014**	**31 December 2013**	**31 December 2012**
PZU own funds (*PLN millions*)	10,356	9,506	10,956
PZU required solvency margin (*PLN millions*) ...	1,352	1,362	1,344
PZU solvency margin ratio (*%*)	766.2%	697.7%	815.3%
PZU Życie own funds (*PLN millions*)	4,557	4,185	6,551
PZU Życie required solvency margin (*PLN millions*)	1,765	1,777	1,742
PZU Życie solvency margin ratio (*%*)	258.1%	235.5%	376.0%
Group solvency margin ratio (%)	**380.5%**	**351.8%**	**402.8%**

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

In both 2012 and 2013, 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 31 March 2014, 31 December 2013 and 31 December 2012.

Company	**31 March 2014**	**31 December 2013**	**31 December 2012**
PZU	112.8%	115.5%	126.1%
PZU Życie	116.9%	115.8%	115.1%

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

BORROWINGS

As of 31 December 2013 the Group had outstanding liabilities, under credit facilities and loans granted to the Group, of PLN 227 million.

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 53 to the 2013 Financial Statements.

RISK MANAGEMENT

Risk management is centralised within the Group. The key elements of the Group's risk management framework are:

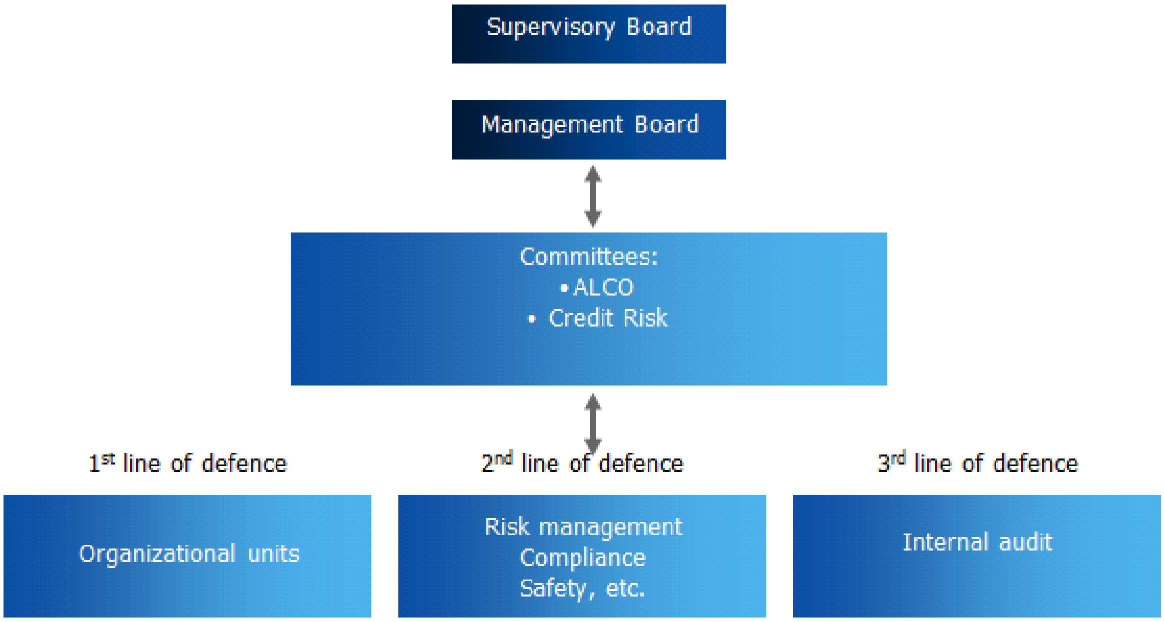
- the promotion of a strong risk management culture supported by a sound risk governance structure;
- the application of an integrated risk management approach to protect the Group's capital base and support effective management; and
- the integration of risk into business needs to support an effective decision-making process.

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 2013, the actual solvency coverage ratio was 351.8 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's 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 6.7.1. to the 2013 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 on two levels. First it is monitored internally at the organisational units responsible for operating market risk management and secondly it is monitored independently 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 2013, the exposure of the Group to treasury securities issued by the Polish State Treasury, along with contingent transactions on those securities, amounted to PLN 32.7 billion (PLN 32.4 billion as at 31 December 2012), accounting for 59.7 per cent. of the Group's total financial assets (64.3 per cent. as at 31 December 2012).

- *Exposure to WSE-listed stock* - as at 31 December 2013, the Group's exposure to stock listed on the WSE amounted to PLN 3.0 billion (PLN 2.4 billion as at 31 December 2012), which accounted for 5.5 per cent. of the Group's total financial assets (4.8 per cent. as at 31 December 2012) and 99.8 per cent. of its exposure in listed equity instruments (99.9 per cent. as at 31 December 2012).

- *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 2013, the Group's exposure to deposits made by it with, and bonds and shares issued by, that bank amounted to PLN 2.3 billion (PLN 2.1 billion as at 31 December 2012).

- *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 10.2 billion (PLN 9.2 billion as at 31 December 2012), which accounted for 18.6 per cent. of the Group's total financial assets (18.2 per cent. as at 31 December 2012).

- *Exposure to assets denominated in PLN* – the Group's financial assets denominated in PLN accounted for 93.9 per cent. of its total financial assets as 31 December 2013 (95.7 per cent. as at 31 December 2012).

- *Unit-linked insurance and investment contract portfolio* - as at 31 December 2013, the Group's unit-linked insurance and investment contract portfolio amounted to 8.7 per cent. of its total financial assets (8.2 per cent. as at 31 December 2012).

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 6.7.2 to the 2013 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 6.7.3 to the 2013 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 6.7.4 to the 2013 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, which was established in June 2013. 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 2013.

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 2013, the main partners providing obligatory reinsurance cover to PZU were Swiss Re, Hannover Re, Scor, Endurance 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 each of PZU Lietuva and PZU Ukraine. 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, Arch Re, Partner Re and Gen 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.

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. On 29 May 2014, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK (Aviva Open-End Pension Fund Aviva BZ WBK) ("**Aviva OFE**") announced that it had acquired 5 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	4,332,166	5.02
Other shareholders	51,634,881	59.79
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 back up procedures, off site data storage, and sophisticated cyber-crime prevention software.

In 2012, PZU decided to implement a new IT system for non-life insurance products. Full implementation of the new system is expected by the middle of 2016. Currently, the system operates in several regions in Poland and approximately 100,000 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.

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.

As of 31 March 2014, 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.

General Litigation

To the best of PZU's knowledge, as of 31 March 2014, PZU and its subsidiaries were party to 66,845 court cases, in 43,142 of which it is the plaintiff and in 23,703 of which it is the defendant. To the best of PZU's knowledge, as of 31 March 2014, the total value of claims in which PZU is acting as a defendant was approximately PLN 2.0 billion, while the total value of claims brought by PZU was approximately PLN 615 million. As of 31 March 2014, the total value of the provisions created against any litigation was PLN 174 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

Recent acquisitions

On 17 April 2014, PZU announced that it had agreed to acquire the following companies and businesses from the RSA Insurance Group:

- Lietuvos Draudimas AB, the largest non-life insurance company in Lithuania with a 31 per cent. share in gross written premiums in 2013 according to the Lithuanian Central Bank. The consideration payable is €180 million, subject to adjustment.

- AAS Balta, the largest non-life insurance company in Latvia with a 21 per cent. share in gross written premiums in 2013 according to the Financial and Capital Market Commission in Latvia. The consideration payable is €48 million, subject to adjustment.

- the Estonian branch of Codan Forsikring A/S, the fifth largest non-life insurance company in Estonia with an 8 per cent. share in gross written premiums in 2013 according to the Financial Supervision Authority of Estonia. The consideration payable is €30 million, subject to adjustment.

- Link4 Towarzystwo Ubezpieczeń S.A. ("**Link4**"), the pioneer and leading direct insurance provider in Poland. In 2013, Link4 had gross written premiums of PLN 373 million, which, according to KNF, was 1.4 per cent of the non-life insurance gross written premium in Poland. The consideration payable is €90 million, subject to adjustment.

The acquisitions are being made in accordance with PZU's expansion strategy, particularly in the Central and Eastern Europe region. Following completion of the three Baltic acquisitions, the Group will achieve market leadership in terms of gross premiums written in the small, but growing, Lithuanian and Latvian insurance markets and will increase its presence in the Estonian market. Lietuvos Draudimas AB also has the largest network of agents in Lithuania, with a strong capital base and a solvency ratio of 2.5 times at 30 September 2013. The Group believes that these acquisitions present a relatively low level of risk given PZU's market knowledge of the Baltic States and also offer potential cost savings from exploiting synergies with PZU's existing operations in Lithuania.

The Polish acquisition is intended to enhance PZU's position in direct sales and the Group believes that adding the Link 4 direct sales brand to PZU's portfolio will enable it to target different clients from those currently targeted by PZU's existing traditional distribution channels. The Group believes that purchasing an established direct sales brand is less risky than building a new brand which would be a challenging, costly and lengthy process. The proposed acquisition of Link 4 also enables PZU to obtain direct sales know-how.

Each of the acquisitions is subject to conditions precedent, including obtaining regulatory consent in a range of countries. Each of the acquisitions was subject to obtaining consent from the Antimonopoly Committee of Ukraine. In June 2014, the consent of the Latvian Competition Council, Latvian Financial and Capital Market Commission and Antimonopoly Committee of Ukraine were obtained to the sale of AAS Balta. There are no additional conditions precedent to the sale of AAS Balta. Additionally, in June 2014 the consent of the Antimonopoly Committee of Ukraine was obtained for the sale of Link4, Lietuvos Draudimas AB and Estonian branch of Codan Forsikring A/S.

The acquisition of Lietuvos Draudimas AB is subject to obtaining the consent of the Bank of Lithuania or competition clearance from either the European Commission or the Lithuanian Competition Council, depending on which is the competent authority.

The acquisition of the Estonian branch of Codan Forsikring A/S is subject to obtaining the consent from either the Danish Financial Supervisory Authority or Estonian Financial Supervision Authority, depending on which is the competent authority.

The acquisition of Link4 is subject to obtaining the consent of the Polish Financial Supervision Authority or competition clearance from the European Commission or the Polish Antimonopoly Authority, depending on which is the competent authority.

The acquisition of AAS Balta is expected to be completed by 30 June 2014, and the acquisitions of Lietuvos Draudimas AB, the Estonian branch of Codan Forsikring A/S and Link4 will be completed by the end of 2014.

In May 2014, the Group announced the acquisition of 100 per cent. of shares in ORLEN Medica sp. z o.o. ("**ORLEN Medica**") from PKN Orlen and 96.45 per cent. of shares in Specjalistyczna Przychodnia Przemysłowa "Prof-med" sp. z o.o. from Anwil for PLN 48 million in total. ORLEN Medica and Prof-med provide medical services for employees of companies and persons covered by universal health insurance. ORLEN Medica also owns 98.58 per cent. of a company which specialises in the treatment of locomotor system diseases and geriatric diseases. The acquisitions are made pursuant to the Group's strategy of seeking new business opportunities, including in the Polish health insurance market.

First quarter 2014 results

On 15 May 2014, the Group published the Interim Financial Statements which were not subject to audit or review by the Group's auditors. The table below shows a summary of the Group's unaudited consolidated statement of financial position at 31 March 2014 and of its unaudited consolidated profit and loss account for the three month periods ended 31 March 2014 and 31 March 2013. The information in the table below is derived from the Interim Financial Statements.

Consolidated statement of financial position

	As at 31 March 2014
	(*PLN millions*)
Assets	65,045
Share capital	86
Capital and reserves attributable to holders of the parent's equity	13,887
Total equity	13,888

Consolidated profit and loss account

	Three months ended 31 March	
	2014	2013
	(PLN millions)	
Gross written insurance premium	4,354	4,426
Net earned premium	3,990	4,108
Revenue from commissions and fees	69	71
Net investment profit	535	429
Net insurance claims	(2,664)	(2,731)
Operating profit	1,012	1,066
Gross profit	980	1,054
Net profit attributed to holders of the parent's equity	760	838

The Group's net profit for the three months ended 31 March 2014 was PLN 760 million, a decrease of 9.2 per cent. compared to the net profit in the corresponding period of 2013. This was driven by one-off items which increased the Group's net profit in the 2013 period and, excluding these items, the net profit for the three months ended 31 March 2014 would have increased by 18.9 per cent. compared to the comparable period of 2013.

The one-off events in first quarter 2013 effecting operating profit were:

- one-time income on the consolidation of mutual funds (PLN 168 million); and
- one-time income following a settlement with a reinsurer which resulted in the partial reversal of an adjustment to estimates with that reinsurer (PLN 53 million).

Other factors which affected the Group's results in the three months ended 31 March 2014 compared to the corresponding period of 2013 were:

- a decline in the gross written premium caused by lower sales of single premium insurance in the bancassurance channel and lower sales of motor insurance, partially offset by increased sales of group protection insurance;
- improved profitability in group and individually continued insurance, principally driven by portfolio growth and a decline in the loss ratio of protection products;
- maintenance of cost discipline in the major lines of business facilitating growth while reducing recurring administrative expenses;
- a slower rate of conversion of long-term policies into yearly renewable term agreements in type P group insurance; and
- appreciation of equity instruments driven by better market conditions on the WSE and appreciation of debt instruments due to lower 10-year bond yields;

Application of IFRS 10

IFRS 10 supersedes the guidelines on consolidation contained in IAS 27 "Consolidated and standalone financial statements" and SIC-12 "Consolidation – special purpose entities" by implementing a uniform model of consolidation for all entities on the basis of control, notwithstanding the nature of the investment (i.e. whether an entity is controlled through investors' voting rights or through other contractual arrangements generally applied to special-purpose entities).

As a result of applying IFRS 10 from 1 January 2014, Sub-fund PZU Energia Medycyna Ekologia, Sub-fund PZU Akcji Rynków Wschodzących, Sub-fund PZU Akcji Spółek Dywidendowych and PZU FIZ Forte are subject to consolidation. The Group's balance sheet assets and liabilities now recognise the assets and liabilities of the consolidated funds instead of, as previously, the fund units. IFRS 10 has retroactive application and, as a result, the Group has restated certain 2013 information in accordance with the requirements of IFRS 10. Note 3.3.1 to the Interim Financial Statements shows the impact of applying IFRS 10 on the 2013 consolidated statement of financial position, the 2013 consolidated profit and loss statement and the 2013 consolidated statement of other comprehensive income.

As a result of applying IFRS 10:

- the restated total assets of the Group at 31 December 2013 increased by PLN 425 million, or 0.7 per cent.;
- the restated equity of the Group at 31 December 2013 decreased by PLN 156 thousand, or 0.001 per cent.; and
- the Group's net profit for 2013 decreased by PLN 158 thousand, or 0.005 per cent.

Given the above, the Group considers the restatements to be immaterial. As a result, the audited financial data included in this Prospectus is not restated.

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
Dariusz Krzewina	Member of the Management Board
Barbara Smalska	Member of the Management Board
Przemysław Dąbrowski	Member of the Management Board
Tomasz Tarkowski	Member of the Management Board
Ryszard Trepczyński	Member of the Management Board

Andrzej Klesyk

Andrzej Klesyk has been the President of the Management Board of PZU since December 2007 and graduated from the Faculty of Economy of the Catholic University of Lublin. He also holds an MBA from Harvard Business School. From 1993 to 2000 he worked in the London branch of McKinsey. From 2003 to 2007 he was a Partner and Managing Director of The Boston Consulting Group in Warsaw where he collaborated with PZU on insurance projects. He created and managed Inteligo, a pioneer Internet banking project in Poland. He also headed a team creating Handlobank, the consumer banking division of Bank Handlowy w Warszawie S.A. He is a member of The Geneva Association and represents PZU at annual meetings of the World Economic Forum in Davos and the meetings of the Institute of International Finance in Washington. Since April 2008, Mr. Klesyk has served as Chairman of the Supervisory Boards of PZU Życie and PZU AM.

Dariusz Krzewina

Dariusz Krzewina graduated from the University of Łódź and completed post-graduate studies in insurance at Warsaw School of Economics. He has been on the Management Board of PZU Życie since March 2007 and has been president of PZU Życie's management board since August 2007. He became a Director in the Group in February 2010 and in March 2013 became the Management Board member in charge of group and health insurance, administration and the Group Network.

From September 1993 to 2006 he served in various management positions in the Polish insurance sector and served as Chairman of the Management Board and the Sales Director at SAMPO Towarzystwo Ubezpieczeń na Życie SA between October 2002 to June 2004.

Barbara Smalska

Barbara Smalska studied particle physics and holds a PhD from Warsaw University. Since 2013, she has been the Management Board member of PZU in charge of mass insurance, product management, CRM and marketing. Barbara Smalska began her career in 2002 in the Warsaw office of Boston Consulting Group where she specialised in business strategies, operational models, distribution strategy and organisation of the sales network in the consumer and SME sectors. She originally joined the Group in 2008 and has served as a Director of the Product Management Office, Managing Director in charge of the Mass Client Sector and Managing Director in charge of Marketing and Individual Products. She joined the Management Board of PZU Życie in 2013.

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 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 Sp. z o.o., AIG Poland, Creative Team SA (the Elektrim Group) and AT Kearney and Accenture.

Tomasz Tarkowski

Tomasz Tarkowski graduated from the Faculty of Automotive and Construction Machinery Engineering at the Warsaw University of Technology and from the Academy of Finance. He also completed an Advanced Management Program at IESE Business School at the University of Navarra.

Since February 2011 he has been a Director of PZU and the proxy of the Management Board of PZU Życie in charge of Loss Adjustment. He has been a member of the Management Board of PZU and PZU Życie, where he is in charge of loss adjustment and assistance functions, for the last three years. He has been collaborating with the Group since 1996 and for five years served on the Management Board of PZU Ukraine and the Supervisory Board of SOS Service Ukraine (a subsidiary of the Group).

Ryszard Trepczyński

Ryszard Trepczyński graduated from Warsaw School of Economics, the Management and Marketing Department. He has been a member of the Management Board of PZU and PZU Życie since July 2011 and is in charge of the Investment Division. He has considerable experience in planning investment policies and managing large asset portfolios. He has worked as Asset Manager and Head of Debt Instruments Portfolio Management Development in the Financial Investment Office of PZU Życie until 2002. Between 2002 and 2011, Ryszard obtained directorships at Pioneer Pekao Investment Management S.A. and from 2009 onwards was Deputy Chairman of the Management Board in charge of investments.

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 Supervisory Board does not currently have a Chairman and so is chaired by the Deputy Chairman.

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 Ćwiąkalski	Deputy Chairman of the Supervisory Board
Tomasz Zganiacz	Secretary of the Supervisory Board
Zbigniew Derdziuk	Member of the Supervisory Board
Dariusz Filar	Member of the Supervisory Board
Alojzy Nowak	Member of the Supervisory Board
Maciej Piotrowski	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

Tomasz Zganiacz

Tomasz Zganiacz is an engineer and an MBA graduate, specialising in financial management and investment valuation. Previously he has been Vice-President of the Management Board and CFO of Arksteel, Head of Credit at Société Générale and President of the Management Board of Triton Development S.A. Since 2009, he has been a Director in the Ministry of State Treasury in charge of capital markets transactions and corporate governance in financial institutions.

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, University in Rzeszów, and the School of Law and Public Administration in Przemyśl. Since 1988, he has been a partner in T. Studnicki, K. Płeszka, Z. Ćwiąkalski, J. Górski, sp. k. law firm. From 2007 until early 2009, he was the Minister of Justice and the Attorney General.

Zbigniew Derdziuk

Zbigniew Derdziuk graduated from the University of Warsaw and, since 2009, has been the President of the Management Board of ZUS. Zbigniew has many years of experience in management positions, including directorships at Telewizja Polska S.A., Telewizja Familijna and Vice President of the Management Board of Bank Pocztowy S.A. 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.

Dariusz Filar

Dariusz Filar originally held a variety of academic positions at the University of Gdansk, 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 Polska Kasa Opieki S.A.

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.

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. Since January 2014, he has been a Vice President of the Management Board of Bank Gospodarstwa Krajowego. From 2000 until 2008 he held various management and senior board positions at Bank of America (Poland) S.A., TP Invest sp. zo.o., Towarzystwo Emerytalne Telekomunikacji Polskiej S.A. From 2008, for over five years, Maciej was the Vice President of the Management Board at Polska Agencja Żeglugi Powietrznej.

Dariusz Kacprzyk

Dariusz Kacprzyk graduated from the Warsaw School of Economics and obtained a post-graduate from Leon Koźmiński University. Since 21 June 2013 Dariusz has been a Supervisory Board member of the Warsaw Stock Exchange.

Dariusz has previously worked as CEO of Bank Gospodarstwa Krajowego and from 2009 to 2013 he worked in BRE Bank SA as the Director of the Corporate Cooperation Department while simultaneously sitting on the Bank Management Board's credit committee. Previously, from 2007 to 2009 he worked with Bank Pekao SA as the managing director of the Corporate Banking, Real Estate Finance and International Markets Division and as a member of its credit committee. He also worked in Bank BPH SA and Powszechny Bank Kredytowy SA prior to the merger with BPH SA, and in PKO Bank Polski SA. He was the coordinator of the Municipal Development Program organised by the World Bank and the Municipal Development Agency (Finance Minister's Foundation).

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 Polskie Koleje Państwowe S.A.

Aleksandra Magaczewska

Aleksandra Magaczewska 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".

At present, Ms. Aleksandra Magaczewska is the Supervisory Board Chairperson of KGHM Polska Miedź S.A.

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 2013 and 2012.

	1 January – 31 December 2013	**1 January- 31 December 2012**
Management Boards (number of members at 31 December)	42	31
Management	957	940
Advisors	11	3
Other employees	13,082	13,175
Total	**14,092**	**14,149**

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. 48 "European Insurance in Figures" from February 2013, an average Pole spends over four times less on insurance than an average European. In 2012, the value of insurance premium per average Pole (density ratio) in Poland was EUR 384.40. In Europe, the density ratio in 2012 was EUR 1,842.80. 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 Lithuania, 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 6.0 per cent. between 2009 and 2013 and its value in 2013 was PLN 26.6 billion, of which PZU accounted for PLN 8.3 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. In 2013, PZU collected 31.1 per cent. of the non-life insurance gross written premiums in Poland, 77.3 per cent. of such premiums being collected by five insurance groups (out of a market comprising 31 companies).

In 2013, the technical result of the whole non-life insurance market in Poland was PLN 1.3 billion, of which, according to the 2013 Financial Statements, PZU accounted for PLN 1.1 billion.

THE LIFE INSURANCE MARKET IN POLAND

The value of the life insurance market in Poland in 2013, measured in terms of gross written premiums, was PLN 31.3 billion. The market is split almost evenly for regular and single premium insurance and between group and individual insurance.

In 2013, 72.5 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 43.3 per cent. of the life regular gross written premiums in Poland, with 72 per cent. of such premiums being collected by five insurance groups (out of a market comprising 27 companies).

The technical result of the whole life insurance market in Poland in 2013 was PLN 3.0 billion, of which PZU Życie accounted for PLN 1.8 billion, a market share of 60.7 per cent. In 2013, the net result of the whole life insurance market in Poland was PLN 2.8 billion, of which, according to the 2013 Financial Statements, PZU Życie accounted for PLN 1.7 billion.

INVESTMENT FUNDS IN POLAND

According to the Chamber of Asset Managers, as of 31 May 2014, the investment funds in Poland managed assets worth PLN 198.2 billion. This was the highest level in history of the Polish investment funds market. At the same date, 38 investment funds companies managed 722 investment open-ended and closed-ended funds.

In 2013, the average rate of return of investment funds in Poland varied from 1.5 per cent. for funds investing in Polish Treasury bonds to 31.1 per cent. for funds investing in shares of SMEs.

PENSION FUNDS IN POLAND

At 31 May 2014, PTE PZU had a market share of 13.4 per cent. measured in terms of assets of open-end pension funds, the third largest share at that date.

The Polish pension system and pension funds market is currently under reform. As of 31 May 2014, the value of pension fund assets was PLN 152.7 billion, whereas on 31 December 2013 it was PLN 299.3 billion. The reason for this decrease was the transfer of all Treasury bonds held by the pension funds to ZUS. In the second quarter of 2014, the members of the pension funds will be able to declare whether their future premiums should be transferred to the pension funds or to ZUS. If a member does not make any declaration by 31 July 2014 his premiums will be automatically transferred to ZUS. The potential result of the reform might be a significant decrease of the role of the pension funds in the Polish social security system.

BALTIC COUNTRIES

According to the Lithuanian central bank's data, the gross written premium of Lithuanian non-life insurance companies in 2013 was LTL 1.3 billion. At the end of 2013, 12 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 in 2013 was LTL 626 million. At the end of 2013, nine life insurance companies (including four branches of insurance companies registered in another Member State) were operating in Lithuania.

In 2013, the non-life insurance companies in Latvia collected a gross written premium of EUR 245.4 million. At the end of 2013, 13 non-life insurance companies (including eight branches of insurance companies registered in another Member State) were operating in Latvia.

According to the data for the end of 2013, the total value of the gross written premiums on the Estonian non-life insurance market was EUR 244.4 million. At the end of 2013, 14 companies (including five branches of insurance companies registered in another Member State) were operating in the non-life insurance market in Estonia.

UKRAINE

The Ukrainian insurance market is fragmented. According to the State Commission for Regulation of Financial Services Markets of Ukraine and Insurance TOP, in 2013, there were 407 insurance companies operating in Ukraine. 62 companies are offering life insurance and 94 companies are owned by non-Ukrainians.

In 2013, the gross written premiums in the non-life insurance market in Ukraine was UAH 26.2 billion. Life insurance companies collected UAH 2.5 billion of gross written premiums in 2013.

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.

THE INSURANCE ACT

The Insurance Act is divided into two sections: Section I covers life insurance and Section II covers casualty and property insurance. An insurance company cannot simultaneously engage in activities falling into Section I and Section II.

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.

THE KNF

In Poland, insurance companies supervision is currently 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. A person is resident for tax purposes in Sweden if he (i) is domiciled in Sweden or (ii) has his habitual abode in Sweden or (iii) is present in Sweden for six consecutive months, or (iv) earlier has been domiciled in Sweden and after having moved abroad continues to have an essential connection with Sweden (for example is engaged in trade or business in Sweden).

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.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will 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.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

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).

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's 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 Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal 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.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. 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

Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, Merrill Lynch International and UBS Limited (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 1 July 2014, jointly and severally agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the 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 Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Selling Restrictions

United States of America

The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or its possessions. Each Joint Lead Manager has agreed that it will not offer, sell or deliver any Notes within the United States or its possessions.

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

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; 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 International Securities Identification Number for the Notes is XS1082661551.

2. Admission to Trading

In connection with the application to admit the 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. It is expected that admission of the Notes to trading will be granted on or before 3 July 2014.

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 €5,041.20.

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 Notes was authorised by resolution of the Board of Directors of the Issuer passed on 26 June 2014 and the giving of the Guarantee by the Guarantor was authorised by resolution of the Supervisory Board of the Guarantor passed on 17 June 2014.

4. Material Adverse Change

There has been no significant change in the financial or trading position of the Group since 31 March 2014 and no material adverse change in the financial position or prospects of the Group since 31 December 2013.

5. Litigation

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 2013 and 2012 including, in each case, the audit report relating to such accounts;

(c) the unaudited interim consolidated account of the Group as at, and for the three months ended, 31 March 2014;

(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 consolidated accounts of the Group for the financial years ended 31 December 2013 and 2012 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 accounts of the Group for each of these years.

On 18 February 2014 KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. was appointed by PZU's Supervisory Board as the Guarantor's external auditor. KPMG Audyt spółka z ograniczoną odpowiedzialnością sp. k. is an entity authorised to audit financial statements entered on the list kept by the National Chamber of Statutory Auditors under no. 3546.

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.

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POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP
WARSAW, AL. JANA PAWŁA II 24

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2012 FINANCIAL YEAR

WITH AUDITOR'S OPINION AND AUDIT REPORT

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Deloitte.

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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 Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group ("Capital Group"), for which Powszechny Zakład Ubezpieczeń Spółka Akcyjna with registered office in Warsaw at Al. Jana Pawła II 24, as the parent, including consolidated statement of financial position prepared as of 31 December 2012, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2012 to 31 December 2012 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent. The Management Board of the Parent 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 2009, No. 152, item 1223, 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 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. We believe that, despite the uncertainty specified below, our audit provided a reasonable basis for our opinion.

Deloitte.

In our opinion, the audited consolidated financial statements 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 2012 as well as its profit or loss in the financial year from 1 January 2012 to 31 December 2012,
- 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 2012 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 2009 No. 33, item 259, as amended) 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. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Deputy Chairman 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. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 12 March 2013

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 POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP FOR THE 2012 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Parent

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 KRS0000009831.

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 to the Company 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 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).

As of 31 December 2012, the Company's share capital amounted to PLN 86,352,300 and was divided into 86,352,300 ordinary 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 2012 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.

As of 31 December 2012, the Capital Group's equity amounted to PLN 14,269,269 thousands.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as of the date of the opinion:

- Andrzej Klesyk – President of the Management Board,
- Przemysław Dąbrowski – Member of the Management Board,
- Bogusław Skuza – Member of the Management Board,
- Tomasz Tarkowski – Member of the Management Board,
- Ryszard Trepczyński – Member of the Management Board.

Changes in the composition of the Management Board during the audited period:
- on 27 December 2012 Witold Jaworski has resigned and his mandate expired on the same day.

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 2012 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 2012. As a result of our audit, on 12 March 2013 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address 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 consolidated entity**	**Opinion date**
Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	12 March 2013
Powszechne Towarzystwo Emerytalne PZU Spółka Akcyjna	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	8 March 2013
PZU Centrum Operacji Spółka Akcyjna	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	4 March 2013
Tower Inwestycje Spółka z ograniczoną odpowiedzialnością	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	18 February 2013
PrJSC Insurance Company PZU Ukraine	100%	PJSC "Deloitte & Touche USC" – unqualified opinion	31 December 2012	14 February 2013*)
UAB DK PZU Lietuva	99,76%	UAB "Deloitte Lietuva" – unqualified opinion	31 December 2012	14 February 2013*)
Ogrodowa-Inwestycje Spółka z ograniczoną odpowiedzialnością	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	8 March 2013
Grupa Kapitałowa Armatura	63,83%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	28 February 2013
PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	25 February 2013*)
PZU Fundusz Inwestycyjny Zamknięty Akcji	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	25 February 2013*)

PZU Fundusz Inwestycyjny Zamknięty Dynamiczny	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) – unqualified opinion	31 December 2012	25 February 2013*)

*) opinion regards the consolidation package prepared according to IFRS.

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 2011 resulted in a net profit of PLN 2,343,947 thousand. The consolidated financial statements of the Capital Group for 2011 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On 14 March 2012 the certified auditor issued an unqualified opinion.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2011 financial year was held on 30 May 2012.

In accordance with applicable laws, the consolidated financial statements for the 2011 financial year were submitted to the National Court Register (KRS) on 4 June 2012 and filed for publication in Monitor Polski B on 6 June 2012. The consolidated financial statements were published in Monitor Polski B No. 2890/2012 on 14 November 2012.

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 SA and Deloitte Audyt Sp. z o.o. (currently: 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 as well as outside the Company's premises from 18 February 2013 until the date of this opinion.

The authorized entity was appointed by the Supervisory Board by resolution of 8 May 2012 based on authorization presented in Article 25, clause 2, point 10 of the Parent Company.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) 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 Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group.

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 of 12 March 2013.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated statement of financial position, 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.

Selected items from the statement of financial position (in PLN '000)	31.12.2012	31.12.2011
Intangible assets	183,238	166,038
Property, plant and equipment	992,317	1,055,381
Investment property	564,404	534,222
Financial assets	50,423,076	46,775,359
Receivables	1,835,793	1,734,636
Reinsurers' share in technical provisions	749,334	700,713
Total assets	55,909,560	52,129,282
Equity	14,269,269	12,869,505
Undistributed profit / uncovered loss	4,998,329	4,748,424
Technical provisions	35,400,778	32,522,729
Investment contracts	2,299,147	3,471,772
Other provisions	328,105	577,639
Provision for deferred income tax	357,557	109,716
Other liabilities	2,420,155	1,789,951
Accruals and deferred income	682,970	686,957
Total equity and liabilities	55,909,560	52,129,282

Selected items from the consolidated income statement (in PLN '000)	31.12.2012	31.12.2011
Net earned premiums	16,005,240	14,890,528
Net investment income	237,102	281,351
Revenue from commissions and fees	2,047,054	1,970,254
Net profit/loss on realization and impairment loss on investments	521,268	(187,247)
Net change in the fair value of assets and liabilities measured at fair value	1,136,407	(189,181)
Other operating revenue	588,028	485,481
Net insurance claims	(12,218,731)	(10,221,122)
Acquisition costs	(2,000,351)	(1,961,986)
Administrative expenses	(1,440,301)	(1,383,897)
Claims and change in measurement of investment contracts	(176,780)	32,512
Income tax	(784,882)	(563,628)
Net profit	3,253,826	2,343,947

Main items from the consolidated statement of other comprehensive income (in PLN '000)	31.12.2012	31.12.2011
Net profit	3,253,826	2,343,947
Other comprehensive income	88,660	(116,887)
Net comprehensive income total	3,342,486	2,227,060

Profitability ratios	31.12.2012	31.12.2011
– profitability ratio on the basis of gross premium written (net profit / gross written premium	20.0%	15.3%
– profitability ratio on the basis of net premium earned (net profit / net written premium)	20.3%	15.7%

Claims ratios	31.12.2012	31.12.2011
– gross claims ratio (claims and change in technical provisions/gross earned premium)	76.2%	68.8%
– net claims ratio (claims and net change in technical provisions/net earned premium)	76.3%	68.6%

Total operating costs ratio	31.12.2012	31.12.2011
– administrative expenses ratio (administrative expenses/gross written premium)	8.9%	9.1%
– acquisition costs ratio (acquisition costs/gross written premium)	12.3%	12.8%

Return on investment and equity ratios:	31.12.2012	31.12.2011
– investment level ratio (financial assets and investment property / equity and technical provisions less reinsurers' share as at the end of the reporting period)	104.2%	105.9%
– return on equity (net profit/average equity)[1]	24.0%	18.3%

Solvency and funds security ratios	31.12.2012	31.12.2011
– provision allocation ratio (financial assets and investment property / technical provisions less reinsurers' share)	147.1%	148.7%

The analysis of the above figures and ratios identified the following trends in 2012:

- an increase in profitability ratio on the basis of gross written premium from 15.3% in 2011 to 20.0% in 2012;
- an increase in profitability ratio on the basis of net earned premium from 15.7% in 2011 to 20.3% in 2012;
- an increase in gross claims ratio from 68.8% in 2011 to 76.2% in 2012;
- an increase in net claims ratio from 68.6% in 2011 to 76.3% in 2012;
- a decrease in investment level ratio from 105.9% at the end of 2011 to 104.2% at the end of 2012;
- an increase in return on equity from 18.3% in 2011 to 24.0 % in 2012;
- a decrease in provision allocation ratio from 148.7% at the end of 2011 to 147.1% at the end of 2012.

[1] 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 2012 and include:

- consolidated statement of financial position prepared as of 31 December 2012, with total assets and liabilities plus equity of PLN 55,909,560 thousand,
- consolidated income statement for the period from 1 January 2012 to 31 December 2012, with a net profit of PLN 3,253,826 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2012 to 31 December 2012 with a total comprehensive income of PLN 3,342,486 thousand,
- consolidated statement of changes in equity for the period from 1 January 2012 to 31 December 2012, disclosing an increase in equity of PLN 1,399,764 thousand,
- consolidated statement of cash flows for the period from 1 January 2012 to 31 December 2012, showing a cash outflow of PLN 101,138 thousand,
- additional information and explanations, including information on the adopted accounting policy and other explanatory notes.

The structure of assets and liabilities plus equity 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 2012 to 31 December 2012 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent,
- verification of the consolidation documentation,
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

1) financial statements of entities included in the consolidated financial statements,
2) financial statements of controlled entities, adjusted to IFRS and the accounting principles (policy) applied during consolidation,
3) financial statements 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 fair value of the net assets of controlled entities,
6) calculation of minority 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 2012 financial year have been prepared in accordance with the International Financial Reporting Standards in the form specified by European Union.

Entities in the Capital Group

The scope and method of consolidation as well as the relationship between entities in the capital group have been determined based on the criteria specified in the International Financial Reporting Standards, in particular in Conceptual Framework for Financial Reporting under IFRS and IAS 27.

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 – Powszechny Zakład Ubezpieczeń Spółka Akcyjna. Subsidiaries and associated companies included in consolidation prepared their financial statements as of the same balance sheet date as the Parent. The financial year of all subsidiaries and associated companies included in consolidation ended on 31 December 2012.

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 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 in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent in these companies,
- mutual receivables and liabilities of entities included in consolidation,
- material revenue and expenses related to transactions between entities included in consolidation.

Subsidiaries and associates excluded from consolidation and not measured using the equity method due to their insignificance are measured at purchase price less impairment loss.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent 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 report on the activities of the Capital Group in the 2012 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 2009 No. 33, item 259, as amended). 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. (formerly: Deloitte Audyt Sp. z o.o.) and the key certified auditor received a representation letter from the Parent'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. (formerly: Deloitte Audyt Sp. z o.o.) – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Deputy Chairman 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. (formerly: Deloitte Audyt Sp. z o.o.)

Warsaw, 12 March 2013

POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 PREPARED IN LINE 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.

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(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets	**Note**	**31 December 2012**	**31 December 2011**
Intangible asstes	9	183 238	166 038
Goodwill	10	8 474	8 716
Property, plant and equipment	11	992 317	1 055 381
Investment property	12	564 404	534 222
Financial assets			
Financial instruments held to maturity	13.1	21 117 559	21 659 505
Financial instruments available for sale	13.2	3 924 501	7 851 903
Financial instruments measured at fair value through profit or loss	13.3	15 628 401	10 814 619
Loans	13.4	9 752 615	6 449 332
Receivables, including receivables from insurance contracts	14	1 835 793	1 734 636
Reinsurers' share in technical provisions	15	749 334	700 713
Estimated recoveries and recourses	17	121 632	83 117
Deferred tax assets	18	13 963	8 600
Current income tax receivables	19	80 646	8 582
Deferred acquisition costs	20	574 489	569 843
Prepayments	21	94 942	125 890
Other assets	22	83 704	120 461
Cash and cash equivalents	23	136 586	237 724
Assets used in continuing operations		**55 862 598**	**52 129 282**
Non-current assets held for sale and disposal groups	24	46 962	-
Total assets		**55 909 560**	**52 129 282**

Warsaw, 12 march 2013

(in PLN '000)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT.)

Equity and liabilities	Note	31 December 2012	31 December 2011
Equity			
Issued share capital and other equity attributable to the shareholders of the parent			
Share capital	25.1	86 352	86 352
Other capitals		9 105 450	7 948 386
Supplementary capital		8 780 212	7 711 818
Revaluation reserve	25.2	363 242	268 831
Exchange differences from translation	26	(38 004)	(32 263)
Undistributed profit / uncovered loss		4 998 329	4 748 424
Previous year profit (loss)		1 743 148	2 403 000
Net profit (loss)		3 255 181	2 345 424
Minority interest		79 138	86 343
Total equity		**14 269 269**	**12 869 505**
Liabilities			
Technical provisions	27		
Provision for unearned premiums and for unexpired risks		4 537 167	4 521 396
Life insurance provision		15 675 243	14 595 112
Provisions for outstanding claims and benefits		5 878 445	5 429 481
Provision for capitalized value of annuity claims		5 660 281	5 088 626
Provisions for bonuses and rebates for the insured		4 227	7 192
Other technical provisions		531 617	581 155
Unit linked technical provisions		3 113 798	2 299 767
Investment contracts	28		
- with guaranteed and fixed terms and conditions		1 297 224	2 330 870
- for the client and at the client's risk		1 001 923	1 140 902
Provisions for employee benefits	29	60 649	255 576
Other provisions	30	267 456	322 063
Provision for deferred income tax	31	357 557	109 716
Current income tax liabilities	32	21 658	7 570
Derivatives		129 921	93 443
Other liabilities	33	2 420 155	1 789 951
Accruals and deferred income	34		
Cost accruals		672 550	669 048
Deferred income		10 420	17 909
Liabilities related to continuing operations		**41 640 291**	**39 259 777**
Total liabilities		**41 640 291**	**39 259 777**
Total equity and liabilities		**55 909 560**	**52 129 282**

Warsaw, 12 march 2013

(in PLN '000)

CONSOLIDATED INCOME STATEMENT

Consolidated income statement	**Note**	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Gross written premiums	35	16 243 131	15 279 262
Reinsurer's share in the written premium		(237 276)	(285 386)
Net written premium		**16 005 855**	**14 993 876**
Change in net provision for unearned premium		(615)	(103 348)
Net earned premiums		**16 005 240**	**14 890 528**
Revenue from commissions and fees	36	237 102	281 351
Net investment income	37	2 047 054	1 970 254
Net profit or loss on realization and impairment loss on investments	38	521 268	(187 247)
Net change in the fair value of assets and liabilities plus equity measured at fair value	39	1 136 407	(189 181)
Other operating revenue	40	588 028	485 481
Claims, benefits and change in technical provisions	41	(12 371 298)	(10 373 521)
Reinsurers' share in claims, benefits and change in technical provisions		152 567	152 399
Net insurance claims and benefits		**(12 218 731)**	**(10 221 122)**
Benefits and change in measurement of investment contracts	42	(176 780)	32 512
Acquisition expense	43	(2 000 351)	(1 961 986)
Administrative expense	44	(1 440 301)	(1 383 897)
Other operating expense	46	(618 738)	(759 966)
Operating profit (loss)		**4 080 198**	**2 956 727**
Financial expense	47	(41 490)	(49 152)
Gross profit (loss)		**4 038 708**	**2 907 575**
Income tax	49		
- current portion		(568 541)	(826 397)
- deferred portion		(216 341)	262 769
Net profit (loss) from continuing operations		3 253 826	2 343 947
Net profit (loss), including:		**3 253 826**	**2 343 947**
- profit (loss) attributable to equity holders of the parent		3 255 181	2 345 424
- minority profits (loss)		(1 355)	(1 477)
Net profit (loss) from continuing operations		3 255 181	2 345 424
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)		37,70	27,16
Basic and diluted profit (loss) on discontinued operations per ordinary share (in PLN)		-	-
Basic and diluted profit (loss) per ordinary share (in PLN)		37,70	27,16

Warsaw, 12 march 2013

The attached notes constitute an integral part of the financial statements

(in PLN '000)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income	**Note**	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Net profit (loss)		3 253 826	2 343 947
Other comprehensive income	50	88 660	(116 887)
Amounts subject to subsequent transfer to profit or loss		88 660	(116 887)
Financial assets available for sale		77 654	(162 649)
Exchange differences from translation		(5 751)	6 550
Real property reclassified from property, plant and equipment to investment property		16 757	39 212
Net comprehensive income total		**3 342 486**	**2 227 060**
- comprehensive income attributable to holders of the parent's equity		3 343 851	2 228 523
- comprehensive income attributable to equity under discretionary participation features contracts		-	-
- comprehensive income attributable to non-controlling interests		(1 365)	(1 463)

Warsaw, 12 march 2013

(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							Minority 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	26					
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 increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**94 411**	**(5 741)**	**-**	**-**	**88 670**	**(10)**	**88 660**
Net profit (loss) for the financial year	-	-	-	-	-	3 255 181	3 255 181	(1 355)	3 253 826
Total increases (decreases)	**-**	**-**	**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/loss coverage	-	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, 12 march 2013

(in PLN '000)

Statement of changes in consolidated Equity	Equity and provisions attributable to owners of the parent's share capital							Minority 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	26					
Balance as at 1 January 2011	**86 352**	**6 296 313**	**392 268**	**(38 799)**	**6 063 666**	**-**	**12 799 800**	**126**	**12 799 926**
Change in measurement of AFS financial assets	-	-	(162 649)	-	-	-	(162 649)	-	(162 649)
Exchange differences from translation	-	-	-	6 536	-	-	6 536	14	6 550
Real property reclassified from property, plant and equipment to investment property	-	-	39 212	-	-	-	39 212	-	39 212
Total increases (decreases) recognized directly in net capital (including income tax)	**-**	**-**	**(123 437)**	**6 536**	**-**	**-**	**(116 901)**	**14**	**(116 887)**
Net profit (loss) for the financial year	-	-	-	-	-	2 345 424	2 345 424	(1 477)	2 343 947
Total increases (decreases)	**-**	**-**	**(123 437)**	**6 536**	**-**	**2 345 424**	**2 228 523**	**(1 463)**	**2 227 060**
Other changes, including:	**-**	**1 415 505**	**-**	**-**	**(3 660 666)**	**-**	**(2 245 161)**	**87 680**	**(2 157 481)**
Financial profit distribution/loss coverage	-	1 415 325	-	-	(3 660 485)	-	(2 245 160)	(2 830)	(2 247 990)
Consolidation of the Armatura Capital Group	-	-	-	-	-	-	-	88 679	88 679
Other	-	180	-	-	(181)	-	(1)	1 831	1 830
Balance as at 31 December 2011	**86 352**	**7 711 818**	**268 831**	**(32 263)**	**2 403 000**	**2 345 424**	**12 783 162**	**86 343**	**12 869 505**

Warsaw, 12 march 2013

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows	**Note**	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Cash flows from operating activities			
Inflows		19 384 276	19 725 868
- gross inflows from insurance premiums		16 324 691	14 929 349
- inflows from investment contracts		1 859 439	3 054 350
- inflows from reinsurance commissions and share in reinsurers' profits		13 967	20 513
- reinsurers' payments due to share in claims		133 668	385 775
- inflows from claims handling services		230 235	220 906
- other inflows from operating activities		822 276	1 114 975
Outflows		(18 155 919)	(18 138 296)
- insurance premiums paid due to reinsurance		(196 190)	(174 369)
- paid commissions and profit sharing due to outward reinsurance		(2 521)	(4 679)
- gross claims paid		(8 901 396)	(9 026 567)
- claims paid due to investment contracts		(3 186 306)	(3 068 852)
- outflows due to acquisition		(1 524 373)	(1 483 488)
- administrative outflows		(2 137 169)	(2 073 279)
- nterest payments		(65)	(146)
- income tax payments		(664 465)	(904 071)
- outflows from claims handling services		(439 757)	(423 401)
- other operating outflows		(1 103 677)	(979 444)
Net cash flows generated by operating activities		**1 228 357**	**1 587 572**
Cash flows from investment activities			
Inflows		360 665 055	259 765 786
- disposal of investment property		-	13 282
- inflows from investment property		8 594	8 763
- disposal of intangible assets and property, plant and equipment		13 917	27 905
- disposal of shares		3 379 218	4 372 949
- redemption of debt securities		56 717 604	65 465 651
- sales of debt securities under buy-sell-back transactions		149 885 455	56 898 259
- withdrawal of term deposits at credit institutions		139 511 297	130 812 922
- cash from other investments		9 679 935	1 614 486
- interest received		1 336 736	450 899
- dividends received		131 507	98 101
- other inflows from investments		792	2 569

Warsaw, 12 march 2013

(in PLN '000)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONT.)

Consolidated cash flow statement	**Note**	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Outflows		(360 243 667)	(260 054 472)
- payments for maintenance of investment property		(14 605)	(11 581)
- acquisition of intangible assets and property, plant and equipment		(144 881)	(168 435)
- acquisition of shares		(9 116 873)	(4 561 634)
- acquisition of debt securities		(56 903 331)	(63 630 331)
- purchase of debt securities under buy-sell-back transactions		(151 113 561)	(56 260 574)
- acquisition of term deposits at credit institutions		(139 194 248)	(132 934 922)
- acquisition of other investments		(3 747 925)	(2 473 379)
- other payments for investments		(8 243)	(13 616)
Net cash used in/generated by investment activities		**421 388**	**(288 686)**
Cash flows from financing activities			
Inflows		81 451 416	39 242 376
- loans and borrowings and issues of debt securities		81 451 416	39 242 376
Outflows		(83 198 530)	(40 728 208)
- dividends paid to holders of the parent's equity		(1 873 391)	(2 163 206)
- dividends paid to non-controlling interest		(5 860)	(2 830)
- repayment of loans and borrowings and redemption of debt securities		(81 312 622)	(38 556 267)
- interest on credit facilities, loans and issued debt securities		(6 657)	(5 905)
Net cash used in financing activities		**(1 747 114)**	**(1 485 832)**
Total net cash flows		**(97 369)**	**(186 946)**
Cash and cash equivalents at the beginning of the financial year		237 724	423 703
Change in cash due to exchange differences		(3 769)	967
Cash and cash equivalents at the end of the financial year, including:	**Błąd! Nie można odnaleźć źródła odwołania.**	136 586	237 724
- of limited disposability		24 794	26 841

Warsaw, 12 march 2013

ADDITIONAL INFORMATION AND EXPLANATORY NOTES

1. Introduction

These consolidated financial statements of Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group (henceforth: the consolidated financial statements and the PZU Group, respectively) have been prepared in line with International Financial Reporting Standards ("IFRS") and in compliance with the relevant IFRS as endorsed by the European Commission.

The consolidated financial statements have been prepared for the period of 12 months from 1 January 2012 to 31 December 2012.

These consolidated financial statements were signed and approved for publication by the Management Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna (PZU, the parent) on 12 March 2013 and shall be subject to approval of the General Shareholders Meeting of Powszechny Zakład Ubezpieczeń Spółka Akcyjna.

Entities of PZU Group maintain their accounting records in line with local GAAP, while these consolidated financial statements include adjustments made in order to provide compliance with IFRS.

Functional and presentation currency

The Polish zloty (PLN) is the PZU Group's 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 2012, entities included in consolidation did not discontinue any activity.

Extraordinary Shareholders Meeting of ICH Center SA issued a resolution dated 8 March 2012 to start liquidation of the company as of 16 March 2012. At the beginning of 2011, the subsidiary ICH Center SA, excluded from consolidation, ceased to conduct its statutory activities (i.e. claims handling for Green Card holders).

Extraordinary Shareholders☐ Meeting of Sigma Investments Sp. z o.o. issued a resolution dated 19 July 2012 to start liquidation of the company as of 1 August 2012. Sigma Investments Sp. z o.o. did no carry out any business activities.

2. Structure of the Capital Group

2.1 PZU

The Group's parent company is PZU, a joint stock company with its registered office in Warsaw at Al. Jana Pawła II24. It 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: Dz.U. 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).

(in PLN '000)

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 2012	31 December 2011	31 December 2012	31 December 2011	
Entities included in consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and personal 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	Tower Inwestycje Sp. z o.o. („Tower Inwestycje")	Warsaw	27.08.1998	100,00%	100,00%	100,00%	100,00%	Acquisition, operation, lease and disposal of real property
6	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99,76%	99,76%	99,76%	99,76%	Property insurance
8	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
9	Armatura Kraków SA	Kraków	07.10.1999	63,83%	63,83%	63,83%	63,83%	Production of kitchen and bathroom mixing faucets.
10	Armatoora SA	Nisko	10.12.2008	63,83%	63,83%	63,83%	63,83%	Production of radiators and aluminium casts.
11	Armatoora SA i wspólnicy sp. k.	Kraków	10.02.2009	63,83%	63,83%	63,83%	63,83%	Use of free funds, development investments
12	Armagor SA	Kraków	06.09.2009	63,83%	63,83%	63,83%	63,83%	Manufacturing of bathroom (water and gas) and central heating fittings

(in PLN '000)

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 2012	31 December 2011	31 December 2012	31 December 2011	
Entities included in consolidation (cont.)								
13	Armadimp SA	Kraków	20.07.2012	63,83%	nd.	63,83%	n/a	Manufacturing of ceramic sanitary fixtures
14	PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny	Warsaw	15.12.2009	100,00%	100,00%	n/a	n/a	Investment of funds collected from members
15	PZU Fundusz Inwestycyjny Zamknięty Akcji 1)	Warsaw	27.01.2010	100,00%	100,00%	n/a	n/a	Investment of funds collected from members
16	PZU Fundusz Inwestycyjny Zamknięty Dynamiczny 2)	Warsaw	27.01.2010	100,00%	100,00%	n/a	n/a	Investment of funds collected from members
Non-consolidated subsidiaries								
17	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
18	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
19	PZU Pomoc SA	Warsaw	18.03.2009	100,00%	100,00%	100,00%	100,00%	Assistance services
20	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99,34%	99,34%	99,34%	99,34%	Life Insurance
21	PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life")	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Life Insurance
22	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
23	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100,00%	100,00%	100,00%	100,00%	The Company does not conduct activities.
24	Ipsilon Bis SA	Warsaw	02.09.2011	100,00%	100,00%	100,00%	100,00%	The Company does not conduct activities.
25	Omicron SA	Warsaw	13.09.2011	100,00%	100,00%	100,00%	100,00%	The Company does not conduct activities.
26	Syta Development Sp. z o.o. w likwidacji	Warsaw	29.04.1996	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of real property, trade agency and administration of real property
27	Sigma Investments Sp. z o.o. w likwidacji 3)	Warsaw	28.12.1999	100,00%	100,00%	100,00%	100,00%	The Company does not conduct activities.

(in PLN '000)

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 2012	31 December 2011	31 December 2012	31 December 2011	
Non-consolidated subsidiaries (cont.)								
28	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Assistance services
29	Company with Additional Liability Inter-Risk Ukraine („Inter Risk") [4]	Kiev (Ukraine)	01.07.2005	0,00%	100,00%	0,00%	100,00%	Legal services
30	LLC Finansowa Kompania Idea-Kapitał [5]	Kiev (Ukraine)	06.10.2011	0,00%	100,00%	0,00%	100,00%	Financial services
31	ICH Center SA w likwidacji [6]	Warsaw	31.01.1996	90,00%	90,00%	90,00%	90,00%	The Company does not conduct activities.
Affiliates								
32	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37,53%	37,53%	36,71%	36,71%	Operation of ski hoists.
33	GSU Pomoc Górniczy Klub Ubezpieczonych SA (d. Nadwiślańska Agencja Ubezpieczeniowa SA)	Tychy	08.06.1999	30,00%	30,00%	30,00%	30,00%	Insurance activities.

[1] Consolidated using the full method since 1 July 2012 (described in point 2.3.1)
[2] Consolidated using the full method since 1 October 2012 (described in point 2.3.1)
[3] On 19 July 2012 the Extraordinary General Shareholders☐ Meeting of PZU passed a resolution on initiation liquidation process on 1 August 2012.
[4] Sale is described in point2.3.2.
[5] Sale is described in point 2.3.3.
[6] On 8 March 2012 the Extraordinary General Shareholders☐ Meeting of PZU passed a resolution on initiation liquidation process on 16 March 2012.

In addition to the entities listed in the table above, the PZU Group has units and investment certificates in the following funds where PZU Group's share in the net assets is above 20%: PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Ochrony Majątku, PZU Fundusz Inwestycyjny Otwarty Energia Medycyna Ekologia, PZU Dłużny Rynków Wschodzących, PZU Fundusz Inwestycyjny Zamknięty Sektora Nieruchomości, PZU Fundusz Inwestycyjny Zamknięty Sektora Nieruchomości 2, PZU Fundusz Inwestycyjny Zamknięty Sektora Nieruchomości 3, PZU Fundusz Inwestycyjny Zamknięty RE Income, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, PZU Fundusz Inwestycyjny Zamknięty Forte and PZU Fundusz Inwestycyjny Zamknięty Medyczny.

(in PLN '000)

The following table presents key financial data of PZU Group entities for the financial year ended 31 December 2012.

No.	Entity's name	% of share capital directly or indirectly held by PZU as at 31 December 2011	Net profit (loss)	Sales and financial revenue	Total assets	Liabilities and provisions for liabilities	Equity
1	Towarzystwo Funduszy Inwestycyjnych PZU SA 1/6/	100,00%	13 174	74 821	63 628	18 688	44 940
2	PZU Asset Management SA 1/6/	100,00%	467	18 792	12 458	2 603	9 855
3	PZU Pomoc SA 1/6/	100,00%	304	17 494	19 412	2 814	16 598
4	UAB PZU Lietuva Gyvybes Draudimas 1/2 /3 /4/	99,34%	545	28 294	79 942	52 683	27 259
5	PrJSC IC PZU Ukraine Life Insurance 1/5/	100,00%	1 989	40 381	86 201	74 131	12 070
6	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA 6/	100,00%	685	1 940	1 578	226	1 352
7	Ipsilon Sp. z o.o. 1/6/	100,00%	(3)	1	38	1	37
8	Ipsilon BIS SA 6/	100,00%	(12)	4	87	3	84
9	Omicron SA 6/	100,00%	(3)	6	100	3	97
10	Syta Development Sp. z o.o. w likwidacji 1/6/	100,00%	2 210	4 787	5 370	8 419	(3 049)
11	Sigma Investments Sp. z o.o. w likwidacji 1/6/	100,00%	(5)	-	21	-	21
12	LLC SOS Services Ukraine 1 /5/	100,00%	(253)	3 687	701	151	550
13	ICH Center SA w likwidacji 1/6/	90,00%	(269)	64	399	20	379
14	Kolej Gondolowa Jaworzyna Krynicka SA 6/	37,53%	2 191	17 299	45 570	6 250	39 320
15	GSU Pomoc Górniczy Klub Ubezpieczonych SA 6/	30,00%	348	3 199	2 305	25	2 280

1/ Data not audited by a certified auditor.
2/ Sales revenue is defined as the gross written premium total summed up with other technical revenue net of reinsurance
3/ Financial revenue is defined as a difference between Investment revenue plus Unrealized investment gains and Costs of investment activity plus Unrealized investment losses.
4/ Data according to Lithuanian GAAP.
5/ Data according to Ukrainian GAAP.
6/ Data according to Polish Accounting Standards.

2.3 Zmiany organizacji Grupy PZU

2.3.1. Transfer of a portion of financial investments to funds

In 2012, PZU continued the process of transferring financial investments to funds.

The objective of the transfer was to improve the effectiveness of the management of financial investments inter alia by tax optimization (CIT on capital gains and VAT paid to other companies in the PZU Group for the management of the portfolio of securities and not deducted by PZU Życie).

The above transaction had not impact on the net assets and profit/loss of the PZU Group. Presentation, classification and the method of measurement of the assets in these consolidated financial statements of the PZU Group did not change as well, due to:

- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny has been consolidated using full method since 30 June 2011;
- PZU Fundusz Inwestycyjny Zamknięty Akcji has been consolidated using full method since 1 July 2012;
- PZU Fundusz Inwestycyjny Zamknięty Dynamiczny has been consolidated using full method since 1 October 2012.

2.3.1.1. Debt instruments

On 2 February 2012, another portion of bonds issued by the State Treasury owned by PZU Życie and classified to the portfolio of financial instruments measured at fair value through profit or loss - classified to the category at the initial recognition, with the fair value as at the transfer date of PLN 953,162 thousand - were transferred to PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny.

In the period from 4 October to 17 December 2012, PZU purchased for cash participation units in Specjalistyczny Fundusz Inwestycyjny Otwarty Dłużny totalling to PLN 5,000,000 thousand.

2.3.1.2. Equity instruments

On 24 July 2012 PZU and PZU Życie subscribed for B series investment certificates of PZU Fundusz Inwestycyjny Zamknięty Akcji, paying as follows:

- PZU – payment in cash the amount of PLN 79,000 thousand and transfer of shares valued PLN 361,712 thousand, qualified to portfolio held for trading;
- PZU Życie – transfer of shares valued PLN 591,000 thousand, qualified to portfolio held for trading.

On 25 July TFI PZU allocated investment certificates of PLN 437,500 thousand to PZU and PLN 585,700 thousand to PZU Życie. The difference between the subscription value and the issue value of certificates was refunded to PZU and PZU Życie bank accounts.

On 24 October 2012 PZU and PZU Życie subscribed for B series investment certificates of PZU Fundusz Inwestycyjny Zamknięty Dynamiczny, paying as follows:

- PZU - payment in cash the amount of PLN 178,286 thousand and transfer of shares valued PLN 196,734 thousand, qualified to portfolio held for trading;
- PZU Życie – payment in cash the amount of PLN 178,287 thousand and transfer of shares valued PLN 196,731 thousand, qualified to portfolio held for trading.

On 31 October TFI PZU allocated investment certificates of PLN 375,000 thousand to PZU and PZU Życie. The difference between the subscription value and the issue value of certificates was refunded to PZU and PZU Życie bank accounts.

2.3.2. Sales of Inter-Risk

On 22 December 2011 PZU Ukraine and PZU Ukraine Life concluded an agreement with PKO BP SA for the sale of Inter-Risk for a total of PLN 2,500 thousand.

(in PLN '000)

On 16 January 2012 the ownership rights to shares in Inter-Risk were transferred to the acquirer. Realized gain on above transaction amounted to PLN 2,286 thousand.

2.3.3. Sales of LLC FC Idea-Capital

Under the agreement dated 20 March 2012, on 23 March 2012 the ownership rights to shares in LLC Finansowa Kompania Idea-Kapitał were transferred to Publiczna Spółka Akcyjna Kredobank for the total amount of UAH 4,100 thousand.

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 2012 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 points 4 and 5.

The financial statements have been drawn up on historical cost basis, except from revaluation of investment property and some financial instruments.

3.1 Introduction of new IFRS

3.1.1. Standards and interpretations as well as amended standards effective from 1 January 2011

The following revised standards have been applied to these consolidated financial statements for the first time (the amendments were applied earlier, because in the case of the consolidated financial statements of the PZU Group they would have applied to periods beginning on or after 1 January 2013):

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation
Amendments to IFRS 1 – Presentation of items of other comprehensive income	1 July 2012	475/2012

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:

(in PLN '000)

- Approved by European Commission:

Standard/Interpretation	Date of entry into force for periods beginning on	Regulation endorsing a standard or interpretation
Amendments to IAS 19 - Amendments to the accounting treatment of post-employment benefits	1 January 2013	475/2012
IFRS 10 – Consolidated financial statements	1 January 2013 [1]	1254/2012
IFRS 11 – Joint Arrangements	1 January 2013 [1]	1254/2012
IFRS 12 – Disclosure of interests in other entities	1 January 2013 [1]	1254/2012
Revised IAS 27 – Separate financial statements	1 January 2013 [1]	1254/2012
Revised IAS 28 - Investments in associates and joint ventures	1 January 2013 [1]	1254/2012
IFRS 13 – Fair value measurement	1 January 2013	1255/2012
Amendments to IAS 12 – Income Taxes	1 January 2012 [2]	1255/2012
Severe hyperinflation and removal of fixed dates for first-time adopters (Amendments to IFRS 1)	1 July 2011[2]	1255/2012
IFRIC 20 – Stripping costs in the production phase of a surface mine	1 January 2013	1255/2012
Amendments to IFRS 7 – offsetting financial assets and financial liabilities	1 January 2013	1256/2012
Amendments to IAS 32 - offsetting financial assets and financial liabilities	1 January 2014	1256/2012
Amendments to IFRS 1 – Government loans	1 January 2013	183/2013

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 is allowed).

2) The EC voted in favour 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).

- Not endorsed by European Commission:

Standard/Interpretation	Date of issuance by IASB	Date of entry into force for periods beginning on (by IASB)
IFRS 9 – Financial instruments	12 November 2009 16 December 2011 (update)	1 January 2015
Amendments to IFRS (2009-2011)	17 May 2012	1 January 2013
Provisional guidelines (amendments to IFRS 10, IFRS 11 and IFRS 12)	28 June 2012	1 January 2013
Investment entities (amendments to IFRS 10, IFRS 11 and IFRS 12)	31 October 2012	1 January 2014

It is expected that application of the above standards, interpretations and revised standards will not have a material effect on the comprehensive income and equity of the PZU Group, except for:

- IFRS 9, for which, considering a remote effective date, expected further revisions regarding financial instruments, related among others to the current work aimed at replacement of IAS 39 with new regulations, the effects of application of IFRS 9 on the comprehensive income and equity of the PZU Group have not been estimated.
- IFRS 10 – if applied, the PZU Fundusz Inwestycyjny Zamknięty Medyczny fund would be included in consolidation at the beginning of 2014 (as at 31 December 2012). The full list of funds included in the consolidation as of the beginning of 2014 will be known after preparation of the statement of financial position of the PZU Group as at 31 December 2013.

Due to possible changes in the share of the PZU Group companies in the net assets of the aforesaid fund, possible purchase of units or investment certificates of other investment funds by the PZU Group companies and changes in the measurement of units or investment certificates of other investment funds held by the PZU Group companies it is not possible to estimate the effects of application of IFRS 10 on the comprehensive income and equity of the PZU Group as at 1 January 2014.

(in PLN '000)

3.2 Changes in accouting policy

In 2012 no changes to the Accounting Policy were introduced.

3.3 Changes in preparation of the consolidated financial statements compared to the previous year

In 2012, the following changes were made to the presentation of consolidated financial statements compared with the financial statements of the PZU Group for 2011:

- since the beginning of 2012 the Capital Group changed the presentation method applied to segment reporting note, drawn up in line with IFRS 8. The new presentation method applied, as presented in detail in point 6, has been introduced due to the change in the method of presenting financial performance to the body responsible for taking key operational decisions in PZU. The new presentation method applied to segment reporting is more detailed;
- Changes to IAS 1 "Presentation of Items of Other Comprehensive Income", endorsed by the European Commission on 5 June 2012, were applied to these consolidated financial statements (this is an early application, because in the case of the consolidated financial statements of the PZU Group they would apply to periods beginning on or after 1 January 2013). As a result of the changes, other comprehensive income is been recognized under two categories: items subject to later recognition in profit or loss and those that are not subject to such recognition, and the Company discloses information on income tax on items of other comprehensive income in an appropriate note;
- In order to make the consolidated cash flow statement more useful, the cash flow items in respect of claims handling abroad and buy-sell-back transactions are presented separately in these financial statements. The effect of the said change on the comparative data.

Consolidated statement of cash flows	1 January - 31 December 2011 (historical data)	Change	1 January - 31 December 2011 (comparable data)
Net cash flows generated by operating activities			
- inflows from claims handling services	-	220 906	220 906
- other inflows from operating activities	1 335 881	(220 906)	1 114 975
- outflows from claims handling services	-	(423 401)	(423 401)
- other operating outflows	(1 402 845)	423 401	(979 444)
Net cash used in/generated by investment activities			
- sales of debt securities: buy-sell-back	-	56 898 259	56 898 259
- cash from other investments	58 512 745	(56 898 259)	1 614 486
- purchase of debt securities: buy-sell-back	-	(56 260 574)	(56 260 574)
- acquisition of other investments	(58 733 953)	56 260 574	(2 473 379)

3.4 Consolidation principles

In the financial year ended 31 December 2012 all material subsidiaries were subject to consolidation. The criteria taken into consideration while determining materiality include the income generated by the entities, their financial profit/loss in absolute terms as well as the balance sheet total.

The consolidated financial statements include the balances of the parent and subsidiaries following elimination of mutual transactions.

Assets and liabilities of foreign subsidiaries are translated into the Polish zloty at the average exchange rate determined for a given currency by the National Bank of Poland (NBP) as at the end of the reporting period. Income statement items are translated at the exchange rate being the arithmetic mean of the average exchange rates determined by the National Bank of Poland as at the last day of each month of the financial year. Exchange differences from such translations are recognized under equity, "Exchange differences from translation".

(in PLN '000)

3.4.1. Transfer of portion of financial investments to funds

The issue has been described in point **Błąd! Nie można odnaleźć źródła odwołania.**.

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 2012	31 December 2012	1 January - 31 December 2011	31 December 2011
LTL	1,2087	1,1840	1,1990	1,2792
UAH	0,4001	0,3825	0,3716	0,4255

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 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

3.7 Goodwill

Goodwill is determined at fair value of identifiable assets, liabilities and contingent liabilities as at the date of acquiring of control 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, increased by all costs directly related to the purchase of the asset and its adjustment for use, 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, using the annual depreciation rates presented below and starts on the first day of the month following the month of commissioning.

(in PLN '000)

Annual depreciation rates for material assets are presented in the following table:

Asset class	Rate
Perpetual usufruct of land	10%
Ownership right of cooperative residential or commercial space	2,5%
Buildings and structures	1,5% - 4,5%
Machines and technical devices	10% - 40%
Vehicles	18% - 33%
IT hardware	18% - 30%
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 determined 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 the revaluation reserve.

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. Valuations include the implied volatility provided by banks. Correlation coefficients between the prices of financial instruments are calculated based on past observations.

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 adjusted acquisition price and the effects of the measurement are recognized under "Net revenue from investments".

3.11.2. Loans and receivables

Loans and receivables 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;
- loans;
- receivables due to concluded insurance contracts (including reinsurance);
- other receivables.

Loans and receivables, excluding receivables due to concluded insurance contracts, are measured as at the end of the reporting period at the adjusted acquisition price.

Receivables due to concluded insurance contract, due to their short-term nature, are measured at the nominal value including impairment loss on doubtful receivables (the manner of estimating the loss is described in point 4.1).

The effects of measurement of loans and receivables up to the value of measurement at the effective interest rate 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 adjusted acquisition price 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 (Dz. U. No. 11 of 2010, item 66 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
  - other financial instruments,
  - 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 on the basis of effective interest rate 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.

3.11.5. Derivatives

Derivatives (including separated embedded 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, such as forwards and interest rate swaps (IRS) not quoted in an active market is determined using the discounted cash flows and the information used in the measurement of the instruments comes from the money market.

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

3.11.6. Financial liabilities other than ones measured at fair value

Trade liabilities - which are short-term - are recognized at the nominal value.

Other financial liabilities are measured at adjusted acquisition price.

Financial liabilities measured at depreciated cost include investment contract with guaranteed and determined terms. Results of their measurement are recognized under "Performances and change in measurement of investment contracts".

Pursuant to the provisions of amendments to IAS 39 and IFRS 4 valid since 1 January 2006, accounting principles for insurance contracts are also applied to financial guarantees which meet both the definition of an insurance contract and a financial instrument.

3.11.7. 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;
- 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".

Assumptions used to estimate group write-downs on receivables from the insured are presented in point 4.1.

3.12 Recoveries and recourses in property and personal insurance

In the case of some classes (types) of property and personal 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 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 property and personal insurance as well as life insurance are tested for impairment by including adequacy of provisions.

3.13.1. Property and personal 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 costs") during the period of the insurance cover.

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).

3.13.3. Pension insurance

Costs incurred in relation to acquisition for the PZU Open Pension Fund "Złota Jesień", managed by PTE PZU ("OFE PZU") are settled on the straight-line basis for the period of two years. Deferred acquisition costs in the case of pension insurance are recognized in the balance sheet under "Prepayments".

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 Equity

3.15.1. Share capital

Share capital is recognized in the amount specified in the parent's articles of association and registered in the National Court Register

3.15.2. Supplementary capital

Supplementary cap ital i s cr eated an d dis tributed pu rsuant to the prov isions of the C ode of C ommercial Companies (D z. U . N o. 94 of 2000 , ite m 103 7 w ith subseq uent a mendments) and articles o f as sociation of the PZU Group companies.

3.15.3. 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.

3.15.4. Undistributed profit/uncovered loss

Undistributed profit/uncovered loss includes:

- 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 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.

3.16.1. Property and personal 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 at adjusted acquisition price (specified in line with the terms and conditions of the reinsurance treaty) including impairment loss

3.16.2. Life insurance

Pursuant to the assumptions adopted by PZU Życie, 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. Therefore, contracts concluded with PZU Życie are recognized either in line with IFRS 4 or IAS 39.

The classification did not identify any life insurance contracts which assume transfer of both insurance risk and financial risk which would require unbundling of insurance and investment part. In the case of contracts for which unbundling of 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, it is assumed that the investment component is not unbundled.

3.16.2.1. Insurance contracts and DPF investment contracts

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 line with IFRS 4 in line with the principles of measurement of insurance contracts.

3.16.2.2. Unit-linked products

Contracts concluded with an insurance equity fund on the basis of the criterion of significant insurance risk referred to in clauses 3.16.2 and 5.1, are recognised in accordance with IFRS 4 or IAS 39.

3.16.2.3. Investment contracts with no DPF

The principles of recognition and measurement of contracts which, in line 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 using the effective interest rate method or at fair value through profit or loss. The effects of measurement of financial liabilities under investment contracts are charged to profit or loss under "Claims and change in investment contract measurement".

3.17 Insurance contracts

3.17.1. Written premium and provision for unearned premiums

3.17.1.1. Property and personal insurance

PZU, PZU Latvia and PZU Ukraine are party to insurance contracts in property and personal insurance and may be party to reinsurance and outward reinsurance treaties. Short-term policies account for vast majority of concluded property and personal insurance contracts. Some insurance types sold in cooperation with banks and insurance with financial guarantee features are examples of long-term contracts.

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.

When the claims ratio (claims, including change in the balance of provisions for claims outstanding, to earned premium; calculation of the ratio includes the claims handling costs, costs of recourses, and recoveries and recourses received) exceeds 100%, a provision for unexpired risks is created to supplement the provision for unearned premiums. The provision for unexpired risks is determined using the lump-sum method as a difference between the product of provision for unearned premiums and claims ratio in a given financial year and provision for unearned premiums for the same period of insurance.

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.

The reinsurers' share in the premium, provision for unearned premiums and provision for unexpired risks is determined in the amount corresponding to the terms and conditions of relevant reinsurance treaties.

3.17.1.2. Life insurance

Written premiums in life insurance contracts include amounts due under insurance contracts concluded during the reporting period, 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.

3.17.2. Costs of claims paid and technical provisions

3.17.2.1. Property and personal 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 costs of recourses and a change in provisions for claims outstanding. The costs of claims are reduced by all received recoveries and recourses as well as by the change in expected recoveries and recourses.

The reinsurers' share in claims 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 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 as the amount of the average loss for losses not assessed by the liquidator or as the amount determined by a claims handling unit. 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 losses and claims which have not been reported by the date of the provision. IBNR is calculated using the loss triangles: generalized Chain Ladder method, eventually Bornhuetter-Ferguson method for the year of the claim. Basis for calculation are annual triangles for claims paid and claims reported.

The provision for direct claim handling costs for claims reported is calculated 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 claim handling cost is calculated as a percentage of sum of provision for claims reported but not settled, provision for claims incurred but not reported and provision for direct claim handling costs.

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, 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.

3.17.2.2. 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 paid

Claims paid include all payments and charges made in the reporting period due to claims incurred during the reporting period and earlier (also annuity claims and surrenders), together with all direct and indirect, internal and external claims handling costs. Claims handling costs include also the costs of litigation.

The value of claims 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: 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. If a given assumption is found to be inadequate, it is verified and as a result the amount of provisions presented in the financial statements is changed. Provisions for life insurance are determined based on actuarial methods in the following way:

- group employee insurance and continued on an individual basis: 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 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 unit-linked insurance

Provisions for unit-linked insurance products 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

Rezerwa na niewypłacone odszkodowania i świadczenia obejmuje również rezerwę na koszty likwidacji świadczeń.

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 (Dz. U. 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 of PZU Życie about the trends in settlements and finished court proceedings.

- provision in case of low interest rates - related to forecasted decrease in yield 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.

3.17.3. Provision adequacy tests

As at the end of each year PZU Życie 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

3.18 Employee benefits

3.18.1. 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 fun/a 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 profit or loss of a relevant period

3.18.2. Defined benefit plans

3.18.2.1. Provision for retirement benefits

Pursuant to the Labor Code of 26 June 1974 (consolidated text: Dz.U. 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.

3.18.2.2. Provision 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.

3.18.3. Provisions for post-employment benefits

Pursuant to the provisions of the Act of 4 March 1994 on the company social benefit fund (Dz. U. No. 70 of 1996, item 335 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. Liabilities due to post-employment benefits recognized in the statement of financial position are measured at the current value of discounted cash flows.

The costs of post-employment benefits estimated using actuarial methods are recognized on an accrual basis, using the projected unit credit method.

3.18.4. Costs of paid vacation

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). 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 "Accruals".

3.19 Revenue recognition

Recognition of revenue due to insurance contracts has been described in point 3.17.1

Interest

Interest revenue is recognized in accordance with effective interest rate and reported in the income statement in the period its 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" in the consolidated income statement.

Revenue from pension fund management services

Revenue from management of 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 Articles of Association of PZU OPF and in line with the limits stipulated in the Pension Funds Act of 28 August 1997 (Dz.U. no.34 of 2010, item 189 with subsequent amendments; "Pension Funds Act),
- fees specified in the Articles of Association of PZU OPF for managing PZU OPF, in accordance with the limits specified in the Pension Funds Act,
- other fees determined in the Articles of Association of PZU OPF.

Revenue from operating activities of PTE PZU is recognized under "Revenue from commissions and fees".

3.20 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 profit or 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 provisions 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.

3.21 Recognition of foreign currency transactions and balances

Transactions executed in currency other than Polish zloty (PLN) are recognized at the average NBP exchange rate valid on 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 assumptions underlying accounting estimations

4.1 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.

4.1.1. Property and personal insurance

In order to determine the amount of a collective write-down on receivables from policyholders, a sophisticated 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.

4.1.2. 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 PZU Życie resigned from collection of overdue receivables.

4.2 Assumptions made in estimation of technical provisions for property and personal insurance

The final estimated value of claims paid has been presented in the provision development triangles in point 7.5.1.1. Methodologies used to calculate IBNR provision are described in point 3.17.2.

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.

Future yield of the portfolio of investments covering the provision for capitalized annuity amount is calculated as projected yield of the portfolio of bonds maintained to maturity in line with the prudence principle.

As at 31 December 2011 and 31 December 2010, for annuities arising from accidents included in insurance contracts concluded by 30 April 2006 the technical rate of 3.7% was applied, while for the other annuities, the maximum technical rate as published by the Financial Supervisory Authority (FSA) was applied. As at 31 December 2012, the technical interest rate applied to all annuities was 3.6%. At the same time, based on forecasts of inflation and remuneration growth as at 31 December 2012 PZU established annuities growth rate of 3.9% (31 December 2011: 3.7%).

As regards life annuities, the period during which annuity claims are paid is determined based on the Polish Life Expectancy Tables for 2011 (31 December 2011: PLET for 2010), 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 point 7.5.1.1.

4.3 Assumptions made in estimation of technical provisions for life insurance products

Technical rates in life insurance

At the end of 2012 PZU Życie reduced the technical interest rate used for determining the value of provisions for life insurance in employee group insurance in the workplace and individually continued employee and family insurance to 3.0%.

In the fourth quarter of 2012, the debt securities market saw a drop in the yield on bonds maturing within three months as well as bonds maturing within five and ten years. As a result, in the last quarter of 2012, the yield on bonds went down relatively quickly, decreasing by two percentage points compared with the beginning of 2012. It is estimated that in the near future the interest rates on bonds will remain low, especially on short-term bonds, which will have a negative impact on future yield and income from investment in assets covering technical provisions. As a result of the yield forecast, the technical interest rate used for determining the value of provisions for life insurance dropped to 3.0%.

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 point 7.5.1.2.

Incidence 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 point 3.17.2.2.

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 point 7.5.1.2.

Provision for revaluation of old portfolio claims and for pending litigation

Key assumptions regarding calculation of provision for old portfolio claims revaluation and provisions for pending litigation are described in point 27.2.2.

Provision adequacy tests

Provision adequacy testing principles in life insurance products are described in point 3.17.3.

4.4 Deferred acquisition costs in life insurance products

Accounting principles regarding bringing forward of deferred acquisition costs in life insurance products are described in point 3.13.2.

5. Judgments used when selecting and applying accounting principles (policy)

Preparation of consolidated financial statements in line with IFRS requires estimates and assumptions which have an impact on the financial data presented in the financial statements with regard to values of assets, liabilities, revenue and expenses, as well as to disclosures.

Although the adopted assumptions and estimates are based on the Management Board's best knowledge about current activities and events, actual results may differ from those expected.

These continuously verified estimates and assumptions are based on historical experience and other expectations regarding future events, which, based on data available as at the financial statements date, seemed reasonable.

5.1 Classification of insurance contracts in line with IFRS 4

PZU Group companies that carry out insurance activity, i.e. PZU, PZU Życie, PZU Latvia and PZU Ukraine 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.

5.1.1. Contract classification in property and personal 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.

5.1.2. Classification of life insurance contracts

Based on an analysis, the Management Board of PZU Życie stated that the company offers 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 line 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.

5.2 Impairment of AFS equity instruments

Impairment of AFS financial instruments is recognized in case of a significant and prolonged decrease of their fair value below the initial value. Determining whether the decrease is significant and prolonged is based on a judgment. When making such a judgment, standard volatility of equity instrument prices is considered. An impairment loss is recognized if objective evidence of impairment exists, as described in point 3.11.7.

5.3 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 the income statement.

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.

5.4 Unrecognized deferred tax assets

Due to lack of precisely determined investment plans regarding shares in subsidiaries or associates, which are not included in consolidation herein or measured with the equity method. No deferred tax asset was recognised related to appropriate temporary differences.

The PZU Group has not recognised a portion of deferred tax assets related to tax losses incurred by PZU Lietuva in the portion classified as unrealisable.

5.5 The value of temporary losses related to these investments and amount of unrecognised deferred tax assets related to the tax losses incurred by PZU Lietuva is presented in point 18.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 the trial balance 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 and is still obliged to present in its financial statements transactions with related parties of the State Treasury.

As part of their statutory business, the entities in the PZU Group concluded transactions with the State Treasury subsidiaries, co-subsidiaries and associates, other than commercial companies listed on the website of the Ministry of Treasury. Considering a substantial number of such entities and transactions concluded, limitations of the reporting system implemented by the PZU Group as well as immateriality of the impact of such transactions on the performance of the PZU Group, PZU believes that their disclosure is not important for ensuring a reliable presentation of the financial position of the Group.

6. Segment reporting

6.1 Reportable segments

6.1.1. 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 (personal and property insurance);
- Retail client insurance (personal and property 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 (personal and property insurance);
- Baltics - Lithuania, Latvia, Estonia (personal and property 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.

6.1.2. Geographical areas

The PZU Group applies additional geographical segmentation as follows:

- Poland;
- Baltics;
- Ukraine.

6.2 Settlements among segments

All business transactions among operating and geographical segments are concluded on arm□s length terms.

The investment performance (the difference between realized and unrealized revenue and expenses) disclosed under corporate insurance (personal and property insurance), retail client insurance (personal and property 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 yield (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.

6.3 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 net profit or loss on investments covering 100% of technical provisions. 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 property, personal 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.

6.4 Information about segments

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

- Corporate insurance (personal and property 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 (personal and property 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 insurance 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, however the surplus is not the same as investments of own funds of insurance companies as defined in Polish Accounting Standards) and other funds available in the PZU Group;
- Pension insurance - reporting in accordance with Polish Accounting Standards – comprising the company PZU PTE;
- Ukraine (personal and property insurance) - reporting in accordance with Ukrainian standards – comprising the company PZU Ukraine;
- Baltics (personal and property insurance) - reporting in accordance with Lithuanian standards – comprising the company PZU Lietuva, operating in Lithuania and from 2012 thorugh branches operating 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). 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 recognised;
- 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.

6.5 Polish Accounting Standards applied

6.5.1. 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

2012, approved by Management Board on 12 March 2013, on which the certified auditor issued an unqualified opinion on the same date ("Separate financial statements of PZU for 2012").

The separate financial statements of PZU for 2012 are available on the PZU website www.pzu.pl under "PZU Capital Group/Investor Relations/Periodic and current reports/Periodic reports".

6.5.2. PZU Życie

In accordance with IFRS, the accounting policies regarding insurance contracts and investment contracts of PZU Życie have been presented in point 3 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.
- The technical interest rate used for determination of technical provisions. In line 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 line 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.

At the end of 2012, technical rates applied in accordance with PAS and IFRS were unified; in both cases this involved reduction of the technical rates. The reduction and the underlying reasons are described in point 4.3.

The impact of the aforesaid differences between PAS and IFRS has been presented in a segment reporting note in separate columns.

6.6 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).

6.7 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 realized and unrealized 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 realized and unrealized investment revenue and expenses not allocated to the "investments" segment – resulting from the method of analysis of data regarding that segment and from impracticality of such allocation;
- 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.

(in PLN '000)

Income statement for 1 January – 31 December 2012	Corporate insurance (property and personal insurance)	Individual insurance (property and personal 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 premiums - 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 premiums - external
Gross written premiums - cross-segment	2 293	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2 293)	-	Gross written premiums - cross-segment
Gross written premiums	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 gross written premiums	(151 837)	(46 759)	(2 664)	(86)	-	-	(25 789)	(12 083)	-	-	-	-	-	-	-	1 942	(237 276)	Reinsurer's share in gross written premiums
Net written premiums	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 premiums, 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 provision for unearned premiums net of reinsurance
Change in net provision for unearned premium	19 096	5 571	-	-	-	-	(287)	(702)	-	-	(23 678)	-	-	-	-	-	-	
Net earned premiums	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 premiums**
											199 165	-	37 937	-	-	-	237 102	Revenue from commissions and fees
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)							
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 (cross-segment transactions)	-	-	-	-	1 235 518	-	-	-	-	-	(1 235 518)							
											2 040 830	-	-	-	-	6 224	2 047 054	*Net investment income (external transactions)*
											1 235 518	-	-	-	-	(1 235 518)	-	*Net investment income (cross-segment transactions)*
											385 556	104 163	-	-	-	31 549	521 268	Net profit or loss on realization and impairment loss on investments
											1 095 224	(64 008)	-	-	-	105 191	1 136 407	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance	16 054	78 071	3 434	12 426	-	-	-	-	15 937	-	(125 922)							
Revenue from non-insurance entities	-	-	-	-	-	199 165	-	-	-	386 018	(585 183)							
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 paid	66 058	57 480	121	-	-	-	2 453	3 540	-	-	23 919	-	-	-	-	(1 004)	152 567	Reinsurers' share in claims, benefits and change in technical provisions
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)	-	-	-	(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 costs	(336 218)	(1 136 834)	(317 716)	(90 824)	-	(20 212)	(27 998)	(49 047)	(31 215)	-	-	10	-	-	-	9 703	(2 000 351)	Acquisition costs
Administrative costs	(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 costs
Reinsurers' commissions and share in reinsurers' profit	(5 715)	(15 929)	1 399	-	-	-	-	-	-	-	20 245							
Non-insurance entities costs	-	-	-	-	-	-	-	-	-	(357 038)	357 038							
Other operating costs (without insurance entities)	-	-	-	-	-	(1 863)	-	-	-	(7 367)	(701 104)	(3 977)	-	-	11 699	83 874	(618 738)	Other operating costs
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 costs	(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)

Income statement for 1 January – 31 December 2011	Corporate insurance (property and personal insurance)	Individual insurance (property and personal 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 2011
	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 premiums - external	1 820 824	6 421 476	6 179 053	572 718	-	-	120 892	164 299	3 054 350	-	-	-	(3 054 350)	-	-	-	15 279 262	Gross written premiums - external
Gross written premiums - cross-segment	3 061	1 880	-	-	-	-	-	-	-	-	-	-	-	-	-	(4 941)	-	Gross written premiums - cross-segment
Gross written premiums	1 823 885	6 423 356	6 179 053	572 718	-	-	120 892	164 299	3 054 350	-	-	-	(3 054 350)	-	-	(4 941)	15 279 262	
Reinsurer's share in gross written premiums	(164 143)	(84 865)	(3 030)	(109)	-	-	(21 818)	(13 935)	-	-	-	-	-	-	-	2 514	(285 386)	Reinsurer's share in gross written premiums
Net written premiums	1 659 742	6 338 491	6 176 023	572 609	-	-	99 074	150 364	3 054 350	-	-	-	(3 054 350)	-	-	(2 427)	14 993 876	**Net written premiums, including:**
Change in provisions for unearned premiums and unexpired risks	8 877	(188 599)	2 086	2 212	-	-	(6 680)	(10 808)	-	-	87 760	417	-	-	-	1 387	(103 348)	Change in provision for unearned premiums net of reinsurance
Change in net provision for unearned premium	55 347	32 413	-	-	-	-	-	-	-	-	(87 760)	-	-	-	-	-	-	
Net earned premiums	1 723 966	6 182 305	6 178 109	574 821	-	-	92 394	139 556	3 054 350	-	-	417	(3 054 350)	-	-	(1 040)	14 890 528	**Net earned premiums**
											231 638	-	49 713	-	-	-	281 351	Revenue from commissions and fees
Investment income, including:	158 938	542 502	657 127	197 443	2 209 743	12 563	14 329	(5 701)	(13 956)	(209)	(3 772 779)							
Net investment income (external transactions)	158 938	542 502	657 127	197 443	115 720	12 563	14 329	(5 701)	(13 956)	(209)	(1 678 756)							
Net investment income (cross-segment transactions)	-	-	-	-	2 094 023	-	-	-	-	-	(2 094 023)							
											1 966 506	-	-	-	-	3 748	1 970 254	*Net investment income (external transactions)*
											2 094 023	-	-	-	-	(2 094 023)	-	*Net investment income (cross-segment transactions)*
											(212 422)	(67 897)	-	-	-	93 072	(187 247)	Net profit or loss on realization and impairment loss on investments
											(185 333)	(37 159)	-	-	-	33 311	(189 181)	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance	10 499	76 536	1 776	9 666	-	-	-	-	24 707	-	(123 184)							
Revenue from non-insurance entities	-	-	-	-	-	231 638	-	-	-	355 400	(587 038)							
Other operating revenue (without insurance entities)	-	-	-	-	-	2 091	-	-	-	14 348	553 565	(1 374)	(24 707)	-	-	(58 442)	485 481	Other operating revenue
Gross claims paid	(1 222 675)	(3 830 232)	(4 080 231)	(640 188)	-	-	(58 511)	(98 732)	(3 069 575)	-	(415 419)	185	2 996 832	(19 318)	54 079	10 264	(10 373 521)	Claims, benefits and change in technical provisions
Change in provision for claims outstanding (gross)	(70 627)	(379 924)	5 622	(9 108)	-	-	-	-	(86)	-	454 123							
Reinsurers' share in claims paid	90 250	222 291	114	-	-	-	9 702	12 279	-	-	(177 887)	1 422	-	-	-	(5 772)	152 399	Reinsurers' share in claims, benefits and change in technical provisions
Reinsurers' share in change in provisions for claims outstanding	(51 172)	(144 474)	-	-	-	-	-	-	-	-	195 646							
Claims net of reinsurance	(1 254 224)	(4 132 339)	(4 074 495)	(649 296)	-	-	(48 809)	(86 453)	(3 069 661)	-	56 463	1 607	2 996 832	(19 318)	54 079	4 492	(10 221 122)	**Net insurance claims and benefits**
Change in other technical provisions net of reinsurance, provision for unit-linked insurance, equalization provisions	(11 585)	(42 494)	(109 119)	133 908	-	-	-	-	72 829	-	(43 539)							
											-	-	32 512	-	-	-	32 512	Benefits and change in measurement of investment contracts
provisions for bonuses and rebates for the insured, including change in provisions	(3 951)	(19)	(865)	-	-	-	-	-	-	-	4 835							
Other technical charges, net of reinsurance	(25 794)	(337 815)	(35 121)	(1 123)	-	-	-	-	(3 839)	-	403 692							
Acquisition costs	(310 961)	(1 156 488)	(277 703)	(56 104)	-	(81 559)	(31 594)	(40 067)	(37 500)	-	-	7	-	-	-	29 983	(1 961 986)	Acquisition costs
Administrative costs	(104 737)	(529 170)	(560 860)	(49 180)	-	(73 091)	(26 854)	(15 049)	(12 172)	-	(25 099)	4 989	-	-	-	7 326	(1 383 897)	Administrative costs
Reinsurers' commissions and share in reinsurers' profit	12 200	(29 617)	933	-	-	-	-	-	-	-	16 484							
Non-insurance entities costs	-	-	-	-	-	-	-	-	-	(347 925)	347 925							
Other operating costs (without insurance entities)	-	-	-	-	-	(1 195)	-	-	-	(7 721)	(902 467)	6 767	-	-	(33 407)	178 057	(759 966)	Other operating costs
Insurance result / Operating profit (loss)	194 351	573 401	1 779 782	160 135	2 209 743	90 447	(534)	(7 714)	14 758	13 893	(176 730)	(92 643)	-	(19 318)	20 672	(1 803 516)	2 956 727	**Operating profit (loss)**
Other operating revenue	93 980		82 172				1 916	3 219			(181 287)							
Other operating costs	(257 343)		(136 648)				(512)	(3 676)			398 179							
Financial expense										(8 978)	(40 162)						(49 152)	Financial expense
																	2 907 575	**Gross profit (loss)**
																	(563 628)	Income tax
																	2 343 947	**Net profit (loss)**

(in PLN '000)

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*	1 159 760	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

* Include intangible assets and property, plant and equipment

2011	Poland	Baltics	Ukraine	Unallocated (consolidation eliminations and other)	Consolidated value
Gross written premiums - external	14 994 071	164 299	120 892	-	15 279 262
Gross written premiums - cross-segment	3 277	-	-	(3 277)	-
Revenue from commissions and fees	281 351	-	-	-	281 351
Net investment income (external transactions)	1 956 166	6 065	8 023	-	1 970 254
Net profit or loss on realization and impairment loss on investments (external transactions)	(177 914)	(9 066)	(267)	-	(187 247)
Net change in the fair value of assets and liabilities measured at fair value (external transactions)	(186 011)	(3 170)	-	-	(189 181)
Non-current assets other than financial instruments*	1 205 179	10 410	7 752	(1 922)	1 221 419
Deferred tax assets	7 289	-	1 311	-	8 600
Assets	52 017 213	279 246	147 909	(315 086)	52 129 282

* Include intangible assets and property, plant and equipment

7. Risk management

7.1 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 ALCO and Credit Risk Committee (the "Committees") play the key role.

7.2 Key risk management assumptions

7.2.1. Risk appetite

Risk appetite is the level of risk that the PZU Group is prepared to accept in the realization of its business goals. The aforesaid definition of C of the risk management strategy as well as the level of risk the PZU Group accepts before management action is deemed necessary to reduce the risk to an acceptable level.

The risk appetite is determined using a system of limits taking into account analyses of sensitivity to all material risk factors. The risk appetite for each type of risk is defined in the form of limits approved by the Management Boards or relevant Committees. Company-level limits are assigned to organizational units on a lower level of the organizational structure.

Depending on the type of risk, operating and management reports are drawn up daily and periodically (monthly, quarterly), respectively. The Management Boards of PZU and PZU Życie, Supervisory Boards and Committees are the main recipients of periodical reports.

7.2.2. Risk management process

Thanks to structured identification, measurement and assessment, monitoring, controlling and reporting risk, as well as management actions, PZU realizes the risk management strategy effectively in all areas of its activity.

7.3 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 Żucie 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;
- Committees (the Committee for Assets, Equity and Liabilities Management and the Credit Risk Committee) 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:

- Line 1: risk management at the business (organizational) unit level in accordance with valid procedures, guidelines and limits. At this level, risk management is additionally supported by internal control principles, including monitoring activities carried out by superiors as part of on-going and periodic monitoring, and internal controls embedded in procedures and processes of a given organizational unit.
- Line 2: risk management through specialized units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on the applicable principles, methodologies and procedures. On this level the Company identifies, measures and monitors risk, develops guidelines, conducts reporting and prepares management information on risk exposure.
- Line 3: the internal audit, whose tasks include independent control and audit of key risk management system elements and control activities embedded in the Group's operations on the basis of audit and internal control methodologies developed and improved on an on-going basis. Additionally, this line includes monitoring the implementation of auditor's recommendations.

7.4 Significant events in risk management in 2012

Organizational changes

In 2012, as part of the optimization and concentration of the decision-making process, the Credit Risk Committee took over the rights of the following committees:

- The Financial Insurance and Guarantee Risk Committee at PZU whose main role was to develop the strategy and the system of limits in the financial insurance and insurance guarantees segment;
- The Investment Committee whose role is to set the exposure limits for non-banking entities.

Development of risk strategy actions in 2012-2014

In 2012, the Company developed actions for the risk strategy for 2012-2014, focused mainly on the following:

- Adaptation of the PZU Group to the requirements of the Solvency II Directive (hereinafter referred to as "Solvency II");
- Unification of terms, measurement tools and risk reporting in the PZU Group;
- Development of risk map.

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.

7.5 Risk profile

Management of individual risk types is centralized both in PZU and PZU Życie. This principle applies to market risk, credit risk regarding investments and reinsurance and liquidity risk. Insurance risk is managed on the level of individual companies depending on the nature of their operations.

Insurance and operating risk is managed at 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 (model based risk quantification) and by quality (which is of crucial importance for quality risks, such as strategic and reputation risk). 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 incurring a financial loss or unfavorable change in the value of insurance liabilities resulting from volatility of occurrence, frequency and scale of covered events and from volatility of claims payments.

Market risk - a risk that the fair value of a financial instrument or future cash flows related to it shall fluctuate due to changes in market prices. The risk involves three risk types: interest rate risk, currency risk and other price risks.

Credit risk - a risk of incurring a financial loss following a failure to meet an obligation by issuers of securities, contractors, and contractors of guarantee beneficiaries. Credit risk includes also risk of concentration related to financial loss resulting from too large exposure with an entity.

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 Company's internal regulations and the adopted standards of conduct, including ethical standards.

7.5.1. Insurance risk (property and personal insurance and life insurance)

Insurance risk in PZU and PZU Życie includes:

- property and personal 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 in TPL insurance 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 provisions for extreme of exceptional events.
- 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 decrease 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 of 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 of technical provisions and
- continuity principle stating that the technical provisioning methodology should not be modified unless important circumstances justify such modification.

For personal and property insurance (PZU), the level of technical provisions is evaluated once a month, or 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 SA or carries out valuation of 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.

(in PLN '000)

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 (as an insurance risk mitigating tool)

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, 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.

7.5.1.1. Exposure to insurance risk in property and personal products

The following table presents the key costs ratios in PZU Group in property and personal insurance.

Ratio	1 January - 31 December 2012	1 January - 31 December 2011
Expense ratio	26,86%	27,74%
Claims ratio net of reinsurance	65,77%	67,57%
Reinsurer's retention ratio	2,67%	3,31%
Mixed ratio	92,63%	95,31%

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 '000)

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)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Provision at the end of the reporting year	7 295	7 247	7 458	7 541	7 898	8 293	8 699	9 381	9 870	10 989
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	6 471	6 868	6 916	7 300	7 698	8 382	8 561	9 681	10 298	
- calculated two years later	6 534	6 387	6 815	7 287	7 833	8 410	8 856	10 192		
- calculated three years later	6 097	6 355	7 014	7 437	7 852	8 758	9 346			
- calculated four years later	6 083	6 560	7 113	7 443	8 141	9 215				
- calculated five years later	6 272	6 659	7 120	7 661	8 600					
- calculated six years later	6 361	6 700	7 307	8 103						
- calculated seven years later	6 422	6 868	7 703							
- calculated eight years later	6 577	7 228								
- calculated nine years later	6 904									
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)	6 904	7 228	7 703	8 103	8 600	9 215	9 346	10 192	10 298	
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)	3 357	3 367	3 485	3 455	3 434	3 386	2 797	2 746	1 617	
Provision recognized in the statement of financial position	3 547	3 861	4 218	4 648	5 166	5 829	6 549	7 446	8 681	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	391	19	(245)	(562)	(702)	(922)	(647)	(811)	(428)	
The above difference as a percentage of the originally estimated provision	5%	0%	-3%	-7%	-9%	-11%	-7%	-9%	-4%	

(in PLN '000)

Claims development in direct property and personal insurance, gross (by reporting year)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Provision at the end of the reporting year	5 750	5 980	6 246	6 356	6 916	7 433	7 973	8 639	9 305	10 413
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	5 134	5 630	5 651	6 146	6 791	7 568	7 844	8 838	9 731	
- calculated two years later	5 251	5 175	5 605	6 202	6 969	7 598	8 092	9 345		
- calculated three years later	4 839	5 200	5 839	6 396	6 991	7 910	8 558			
- calculated four years later	4 874	5 405	5 979	6 405	7 246	8 344				
- calculated five years later	5 063	5 529	5 984	6 589	7 683					
- calculated six years later	5 173	5 568	6 146	7 009						
- calculated seven years later	5 233	5 712	6 515							
- calculated eight years later	5 364	6 050								
- calculated nine years later	5 668									
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)	5 668	6 050	6 515	7 009	7 683	8 344	8 558	9 345	9 731	
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)	2 440	2 518	2 643	2 725	2 884	2 891	2 396	2 336	1 516	
Provision recognized in the statement of financial position	3 228	3 532	3 872	4 284	4 799	5 453	6 162	7 009	8 215	
Difference between the originally estimated provision and the run-off result estimated at the end of reporting year	82	(70)	(269)	(653)	(767)	(911)	(585)	(706)	(426)	
The above difference as a percentage of the originally estimated provision	1%	-1%	-4%	-10%	-11%	-12%	-7%	-8%	-5%	

(in PLN '000)

Motor insurance products (MTPL and comprehensive car 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 comprehensive car 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 property and personal insurance

For each branch, a percentage share of flood and hurricane claims paid was calculation in the accumulated amount of claims paid in the years when catastrophes (floor 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 property insurance products.

Risk concentration in property and personal insurance: flood claims exposure

Risk concentration in property and personal insurance: flood claims exposure by level as at 31 December 2012		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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: flood claims exposure by level as at 31 December 2011		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where flood claims account for 0 to 5% of total claims	Sum insured	3,4%	3,7%	1,7%	1,1%	12,9%	**22,8%**
	Number of policies	19,2%	3,8%	0,8%	0,3%	0,3%	**24,4%**
B class regions: branches where flood claims account for 5 to 15% of total claims	Sum insured	2,6%	2,9%	1,3%	0,9%	6,2%	**13,9%**
	Number of policies	13,6%	3,0%	0,6%	0,2%	0,3%	**17,7%**
C class regions: branches where flood claims account for over 15% of total claims	Sum insured	8,3%	10,7%	4,0%	2,2%	38,1%	**63,3%**
	Number of policies	43,7%	11,2%	1,9%	0,5%	0,6%	**57,9%**
Total	**Sum insured**	**14,3%**	**17,3%**	**7,0%**	**4,2%**	**57,2%**	**100,0%**
	Number of policies	**76,5%**	**18,0%**	**3,3%**	**1,0%**	**1,2%**	**100,0%**

(in PLN '000)

Risk concentration in property and personal insurance: hurricane claims exposure

Risk concentration in property and personal insurance: hurricane claims exposure by level as at 31 December 2012		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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 property and personal insurance: hurricane claims exposure by level as at 31 December 2011		**Sum insured**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
A class regions: branches where hurricane claims account for 0 to 5% of total claims	Sum insured	4,4%	5,7%	2,9%	1,8%	30,1%	**44,9%**
	Number of policies	27,8%	5,9%	1,4%	0,4%	0,6%	**36,1%**
B class regions: branches where hurricane claims account for 5 to 15% of total claims	Sum insured	5,4%	7,7%	3,0%	1,6%	22,0%	**39,7%**
	Number of policies	26,7%	8,0%	1,4%	0,4%	0,4%	**36,9%**
C class regions: branches where hurricane claims account for over 15% of total claims	Sum insured	4,5%	3,8%	1,1%	0,8%	5,2%	**15,4%**
	Number of policies	22,0%	4,1%	0,5%	0,2%	0,2%	**27,0%**
Total	**Sum insured**	**14,3%**	**17,2%**	**7,0%**	**4,2%**	**57,3%**	**100,0%**
	Number of policies	**76,5%**	**18,0%**	**3,3%**	**1,0%**	**1,2%**	**100,0%**

Risk concentration in property and personal insurance: non-motor TPL

Risk concentration in property and personal 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 property and personal insurance – TPL as at 31 December 2012	**Sum insured**					
	PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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%**

Gross written premium in property and personal insurance – TPL as at 31 December 2011	Sum insured					
	PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
General TPL in personal life and other	17,2%	4,5%	3,3%	4,0%	15,7%	**44,7%**
Medical TPL	2,1%	3,1%	2,4%	2,6%	3,6%	**13,8%**
Professional TPL except from medical and agricultural (legal, consulting, etc.)	25,8%	2,7%	1,3%	1,5%	3,0%	**34,3%**
TPL of farmers and their movable property	0,0%	6,7%	0,0%	0,0%	0,0%	**6,7%**
Product TPL	0,0%	0,0%	0,1%	0,0%	0,4%	**0,5%**
Total	**45,1%**	**17,0%**	**7,1%**	**8,1%**	**22,7%**	**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 property and personal 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 2012	31 December 2011	31 December 2012	31 December 2011
Technical interest rate – rise by 0.5 p.p.	415	366	415	366
Technical interest rate – drop by 1.0 p.p.	(1 076)	(947)	(1 076)	(947)
Mortality – 110% of the currently assumed level	125	110	125	110
Mortality – 90% of the currently assumed level	(140)	(123)	(140)	(123)

Change in the assumptions for the provision for capitalized annuity amount net of reinsurance in property and personal 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 2012	31 December 2011	31 December 2012	31 December 2011
Technical interest rate – rise by 0.5 p.p.	397	348	397	348
Technical interest rate – drop by 1.0 p.p.	(1 028)	(900)	(1 028)	(900)
Mortality – 110% of the currently assumed level	119	104	119	104
Mortality – 90% of the currently assumed level	(133)	(116)	(133)	(116)

7.5.1.2. 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 material 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 property and personal 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 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
Technical interest rate – drop by 1 p.p.	(38)	(36)	(38)	(36)
Mortality – 90% of the currently assumed level	(13)	(14)	(13)	(14)

Assumptions regarding liabilities arising from insurance and investment contracts with DPF in life insurance excluding annuity insurance

Effects of change in assumptions regarding provisions for insurance and investment contracts with DPF in life insurance excluding annuity products are presented in the following table.

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 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
Technical interest rate – drop by 1 p.p.	(2 296)	(2 168)	(2 296)	(2 168)
Mortality – 110% of the currently assumed level	(954)	(961)	(954)	(961)
110% of incidence proportion	(199)	(205)	(199)	(205)

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 2012**	**31 December 2011**
Change in technical provisions	1 926	1 741
Claims paid	(648)	(567)
Change in deferred acquisition costs	(6)	(7)
Gross financial profit/loss	1 272	1 167
Net financial profit/loss	1 031	945
Equity	1 031	945

7.5.2. Market risk

Market risk in PZU and PZU Życie originates from two key sources:

- matching of assets and liabilities (ALM portfolio) and
- Strategic allocation of assets, i.e. determining of an optimum medium-term structure of assets (SAA portfolios).

(in PLN '000)

The organization in charge of the market risk management uses a process which comprises risk identification, its measurement, monitoring, and 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 and Investment objectives and* guidelines. Based on the *Investment objectives and guidelines*, approved by ALCO, PZU AM manages the SAA portfolios of PZU SA and PZU Życie SA.

Apart from the portfolios managed by PZU AM, 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) performs ongoing control of investment risk assessment. The acceptable levels of market risk are defined by the ALCO in the form of general exposure limits for financial instruments, which have to be complied with by the Risk Office. Market risk is measured by the Treasurer's Office using the Value at Risk method (VaR) or based on a scenario analysis involving an analysis of impairment resulting from a change in risk factors (only for property price risk). 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.

Allowed market risk level is determined by the Management Boards of PZU and PZU Życie and ALCO in the form of general risk limits.

Market risk exposure

value of financial assets exposed to market risk is presented below.

Balance sheet value as at 31 December 2012	**Risk covering assets of the Group**	**Net 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
- Reverse repo 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**
- 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**

Balance sheet value as at 31 December 2011	**Risk covering assets of the Group**	**Net unit-linked assets**	**Total**
Financial assets exposed to interest rate risk	**40 276 691**	**1 562 741**	**41 839 432**
- Fixed interest debt securities	31 258 945	1 368 930	32 627 875
- Floating interest debt securities	2 546 756	20 401	2 567 157
- Term deposits with credit institutions	4 655 101	173 410	4 828 511
- Loans	877 774	-	877 774
- Cash	237 724	-	237 724
- Reverse repo transactions	628 497	-	628 497
- Derivatives	71 894	-	71 894

(in PLN '000)

Financial assets exposed to other price risk	**3 142 307**	**1 902 710**	**5 045 017**
- Shares listed on a regulated market	2 066 398	440 738	2 507 136
- Participation units and certificates in investment funds	1 063 015	1 461 972	2 524 987
- Derivatives	12 894	-	12 894
Total	**43 418 998**	**3 465 451**	**46 884 449**

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 2012 and 2011, 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 2012 and 31 December 2011.

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 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)**

Interest rate derivatives	Base amount by maturity At 31 December 2011					Assets at fair value as at 31 December 2011	Liabilities at fair value as at 31 December 2011
	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:	416 891	14 811 503	9 099 211	488 568	24 816 173	71 894	(74 767)
- FRA transactions	-	13 644 612	-	-	13 644 612	8 993	(15 047)
- SWAP transactions	416 891	1 166 891	9 099 211	488 568	11 171 561	62 901	(59 720)
Interest rate derivatives total	**416 891**	**14 811 503**	**9 099 211**	**488 568**	**24 816 173**	**71 894**	**(74 767)**

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)**

Derivatives linked to currency exchange rates	Base amount by maturity At 31 December 2011					Assets at fair value as at 31 December 2011	Liabilities at fair value as at 31 December 2011
	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:	347 566	618 981	21 220	-	987 767	4 482	(18 652)
- forward transactions	138 147	185 307	-	-	323 454	2 068	(13 088)
- SWAP transactions	209 419	433 674	21 220	-	664 313	2 414	(5 564)
Total derivatives linked to currency exchange rates	**347 566**	**618 981**	**21 220**	**-**	**987 767**	**4 482**	**(18 652)**

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**	**-**

Security price derivatives	Base amount by maturity At 31 December 2011					Assets at fair value as at 31 December 2011	Liabilities at fair value as at 31 December 2011
	Do 3 miesięcy	Powyżej 3 miesięcy do 1 roku	Powyżej 1 roku do 5 lat	Powyżej 5 lat	Razem		
Instruments listed on a regulated market including:	9 195	-	-	-	9 195	-	(24)
- Futures	9 195	-	-	-	9 195	-	(24)
OTC including:	-	74 857	171 384	-	246 241	8 412	-
- Call options	-	74 857	171 384	-	246 241	8 412	-
Security price derivatives total	**9 195**	**74 857**	**171 384**	**-**	**255 436**	**8 412**	**(24)**

Risk concentration

Exposure to treasury securities issued by Polish Ministry of Finance – as at 31 December 2012, exposure of PZU Group to treasury securities issued by Polish Ministry of Finance along with contingent transactions on those securities amounted to 32,399 PLN million (PLN 32,857 million as at 31 December 2011), accounting for 64.32% of the total financial assets (70.2% as at 31 December 2011).

PZU Group's exposure to WSE-listed stock - as at 31 December 2012, the Group's exposure to stock listed at WSE amounted to PLN 2,401.3 million (PLN 2,468 million as at 31 December 2011), which accounted for 4.8% of the financial assets value (5.3% as at 31 December 2011) and 99.9% of exposure in listed equity instruments (98.4% as at 31 December 2011).

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 2012 total exposure to bank deposits, bonds and shares of that bank amounted to PLN 2,133.6 million (PLN 2,885 million as at 31 December 2011).

General exposure to bank deposits, debt securities issued by banks, their shares, IRS transactions and options amounted to PLN 9,199 million (PLN 7,734 million as at 31 December 2011), which accounted for 18.2% of financial deposits value (16.5% as at 31 December 2011).

Exposure to assets and liabilities denominated in PLN – financial assets denominated in PLN accounted for 95.7% of total financial assets as 31 December 2012 (96.6% as at 31 December 2011).

Unit-linked insurance and investment contract portfolio amounted to 8.16% of the total financial assets of the PZU Group as at the end of 2012 (7.4% in 2011).

7.5.2.1. 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 2012		31 December 2011	
	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.	315	360	135	299
Market interest rate increase by 100 b.p.	(295)	(337)	(126)	(283)

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 7.5.1.

7.5.2.2. FX risk

Degree of risk exposure

Information regarding exposure to FX risk by class of financial instruments is presented in item 13.

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 2012**		**31 December 2011**	
	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	83	140	232	167
20% decrease in FX to PLN rates	(83)	(140)	(232)	(167)

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 and to derivatives denominated in foreign currencies, as well as financial assets of Lithuanian and Ukrainian companies included in consolidation.

7.5.2.3. Other price risk

Degree of risk exposure

The value of AFS instruments and MFVTPL portfolio is presented in items 13.2 and 13.3, 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 2012**		**31 December 2011**	
	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%	234	304	254	336
Decrease in measurement of listed equity instruments by 20%	(234)	(304)	(254)	(336)

7.5.3. 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:

- risk of bankruptcy of an issuer of instruments (e.g. corporate bonds) in which PZU and PZU Życie invest, or which they trade;
- risk of a contractor's failure to meet its obligations, e.g. reinsurance or OTC derivatives, as well as bancassurance activities and
- risk of a 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 risk management policy and Credit risk management strategy as well as 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 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, but the limits are set for each Company individually. The limits for PZU and PZU Życie are concentration limits with respect to a single entity and/or capital group (both credit limits and concentration limits). The utilization of limits both with respect to the credit risk limits and the concentration risk limits is controlled by BRY on a daily basis, except for the Bancassurance Office limits which are monitored on a weekly basis. An entity or the Management Board of the company is informed about any 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.

The maximum credit risk exposure of other assets risk is presented below. The listing does not include assets used to cover liabilities resulting from unit-linked insurance and investment contracts.

The table does not list receivables, including insurance contract receivables, because of high diversification of this portfolio resulting in a high share of receivables form small entities and individuals who do not have any ratings.

Assets exposed to credit risk as at 31 December 2012 (PLN million)	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating**	**Net unit-linked assets**	**Total**
Debt securities	61	24	31 965	1 765	568	89	1 458	**35 930**
- held to maturity	-	-	20 856	254	8	-	-	**21 118**
- available for sole	59	-	1 637	57	245	-	-	**1 998**
- valued at fair value	-	-	8 656	636	315	-	1 458	**11 065**
- loans	2	24	816	818	-	89	-	**1 749**
Bank deposits and repo transactions involving treasury securities	15	55	4 282	1 837	315	144	334	**6 982**
Mortgage loans	-	-	-	-	-	27	-	**27**
Other loans	-	1	2	-	-	991	-	**994**
Derivatives	-	6	57	84	5	12	-	**164**
Reinsurers' share in net claims provisions	-	159	317	25	-	57	-	**558**
Receivables from reinsurance	-	5	5	1	-	4	-	**15**
Total assets exposed to credit risk	**76**	**250**	**36 628**	**3 712**	**888**	**1 324**	**1 792**	**44 670**

Assets exposed to credit risk as at 31 December 2011 (PLN million)	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating**	**Net unit-linked assets**	**Total**
Debt securities	480	-	32 883	322	58	63	1 389	**35 195**
- held to maturity	-	-	21 467	185	8	-	-	**21 660**
- available for sole	480	-	6 011	43	-	-	-	**6 534**
- valued at fair value	-	-	5 405	43	50	-	1 389	**6 887**
- loans	-	-	-	51	-	63	-	**114**
Bank deposits and repo transactions involving treasury securities	-	-	4 705	492	14	73	173	**5 457**
Mortgage loans	-	-	-	-	-	32	**-**	**32**
Other loans	-	-	-	-	-	846	**-**	**846**
Derivatives	-	34	51	-	-	-	**-**	**85**
Reinsurers' share in net claims provisions	2	329	123	18	11	54	**-**	**537**
Receivables from reinsurance	-	19	7	3	2	3	**-**	**34**
Total assets exposed to credit risk	**482**	**382**	**37 769**	**835**	**85**	**1 071**	**1 562**	**42 186**

The following table presents credit risk ratios used to calculate credit risk amount.

Standard&Poor's rating	**AAA**	**AA**	**A**	**BBB**	**BB**	**No rating***
Ratio (%) for 2012	0,78	0,86	1,77	4,88	15,59	28,70
Ratio (%) for 2011	0,79	0,82	1,84	5,22	16,54	39,94

* For exposure to mortgage loans without a rating, 2% ratio has been applied.

The credit risk , to which the PZU Group was exposed as at 31 December 2011 amounted to PLN 1,343 million (PLN 1,070 million as at 31 December 2011; had ratios of 31 December 2011 been used, the risk would amount to PLN 1.028 million).

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 assessment of risk relating to financial insurance). The second is the portfolio level, for which the Financial Insurance Unit is responsible. The Financial Insurance Unit 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 Unit 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 2012, the maximum credit risk exposure relating to insurance guarantees and measured by the amount of sums insured was PLN 2,786 million (PLN 3,114 million as at 31 December 2011).

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 out on the basis of an internal model.

(in PLN '000)

Tables below present a list of major reinsurers cooperating with the PZU Group companies, including the reinsurers' share in net technical provisions and the rating assigned by Standard&Poor's.

Reinsurer	**Reinsurers' share in (net) technical provisions as at 31 December 2012**	**Rating assigned by Standard&Poor's as at 31 December 2012**	**Reinsurers' share in (net) technical provisions as at 31 December 2011**	**Rating assigned by Standard&Poor's as at 31 December 2011**
AXA France IARD - AAI Reasurance	184 816	A+	194 601	AA-
Swiss Reinsurance Company	56 600	AA-	53 129	AA-
Hannover Ruckversicherung AG	57 326	AA-	25 316	AA-
Swiss RE Europe S.A. Niederlassung Deutschland	40 812	AA-	22 141	AA-
Scor Global P&C SE Zurich Branch	24 332	A+	12 696	A
Munich Reinsurance Company	23 072	AA-	11 102	AA-
Scor Global P&C SE	17 726	A+	16 194	A
Polskie Towarzystwo Reasekuracji SA	19 780	BBB+	19 435	BBB+
TUiR Allianz Polska SA	12 622	No rating	13 803	No rating
Compagnie Generale Reassurance Monte-Carlo	10 644	No rating	9 961	No rating
Endurance Speciality Insurance Ltd	10 612	A	8 882	A
Scor Switzerland Ltd	10 156	A+	13 296	A
AXIS Re Limited, Dublin, Zurich Branch	9 406	A+	4 053	A+
General Reinsurance AG, Vienna Branch	8 893	AA+	8 251	AA+
STU Ergo Hestia SA	8 290	No rating	18 093	BB
Mutuelle Centrale de Reassurance	7 108	No rating	6 683	No rating
The Toa Reinsurance Company Ltd	6 760	A+	9 227	A+
Aspen Insurance UK Limited, Zurich Branch	6 087	A	4 740	A
Mapfre Re Compania de Reaseguros S.A., Munich Branch	5 980	BBB+	5 403	AA-
R + V Versicherung AG	6 281	AA-	4 559	AA-
Liberty Mutual Insurance Europe Limited	5 946	A-	1 586	A-
Office National du Ducroire	5 838	AA	2 097	AA
Arch Reinsurance Europe Underwriting Limited, Dublin (Ireland), Zurich Branch	5 489	A+	-	A+
Munich Reinsurance Company (ex Victoria Ruck)	5 235	AA-	4 877	AA-
The Motor Insurers' Bureau of the Republic of Lithuania	8 327	No rating	12 270	No rating
Other	191 196		218 318	
Total	**749 334**		**700 713**	

7.5.4. 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 the Companies;
- 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 at least equal to the limit defined. Moreover, both companies have access to repo transactions to manage the liquidity. As regards **medium-term liquidity** management, PZU and PZU Życie hold highly 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 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 wee as currency gap analysis.

Degree of risk exposure

Future cash flows resulting from assets used as coverage of technical provisions in property and personal insurance 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.

Property and personal insurance

The table below presents the match between cash flows related to technical provisions in property and personal 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)	(1 298)	(1 010)	(1 538)	(4 250)	(9 334)
I. Outflows	(1 308)	(1 017)	(1 546)	(4 277)	(9 406)
II. Inflows	10	7	8	27	72
B. Inflows from assets covering technical provisions	2 426	1 090	2 638	5 353	11 005
I. Future inflows whose value is known as at the end of reporting year	2 426	936	2 591	4 720	4 447
- Treasury bonds	784	790	2 432	3 888	3 608
- Treasury bills	-	-	-	-	-
- Other debt securities	28	18	57	651	792
- Term deposits with credit institutions	1 093	15	2	-	-
- Receivables	518	42	20	5	-
- Other, including:	3	71	80	176	47
II Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	-	154	47	633	6 478
- Treasury bonds	-	-	19	440	335
- Other debt securities	-	-	26	193	134
- Shares listed on a regulated market	-	154	2	-	6 009
- Other	-	-	-	-	-
III. Inflows from other assets	-	-	-	-	80
C. Balance of projected cash flows (A + B)	1 128	80	1 100	1 103	1 671
D. Balance of accumulated cash flows	1 128	1 208	2 308	3 411	5 082

The projected net cash flows resulting from property and personal 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 property and personal insurance was 3.7 (3.8 in 2011), whereas the duration of technical provisions was 5.4 (4.2 in 2011).

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 at PZU Życie. 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)	(1 305)	(363)	(1 403)	(1 326)	(3 431)	(5 812)
I. Outflows	(2 153)	(1 185)	(7 121)	(6 816)	(10 540)	(10 591)
II. Inflows	848	822	5 718	5 490	7 109	4 779
B. Inflows from assets covering technical provisions	2 066	4 348	8 183	5 229	3 471	4 339
I. Future inflows whose value is known as at the end of reporting year	2 066	4 319	7 787	5 144	2 432	1 915
- Treasury bonds	1 260	4 194	7 078	4 616	2 432	1 915
- Other debt securities	3	51	303	528	-	-
- Term deposits with credit institutions	757	74	406	-	-	-
- Receivables	46	-	-	-	-	-
II. Future inflows whose value depends directly on market interest rates or other ratios and is unknown as at the end of reporting year	-	29	396	85	1 039	2 424
- Treasury bonds	-	12	272	-	-	-
- Other debt securities	-	17	124	85	-	-
- Investment fund units	-	-	-	-	1 039	2 424
III. Inflows from other assets	-	-	-	-	-	-
C. Balance of projected cash flows (A + B)	761	3 985	6 780	3 903	40	(1 473)
D. Balance of accumulated cash flows	761	4 746	11 526	15 429	15 469	13 996

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 4.7 (5.0 in 2011), whereas the duration of technical provisions was 20.4 (19.5 in 2011).

7.5.5. 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.

The PZU Group identifies and assesses operational risk by way of collecting and analysing information about this risk type for the following areas: safety, HR, IT and legal. Consequently, the Group is able to assess threats resulting from operational risk.

In order to mitigate operational risk PZU applies the following solutions:

- Update and optimisation of processes and procedures;

- Change of check points, reconciliation and validation structure;
- Automation of controls;
- Emergency plans;
- Monitoring and analysis of security incidents;
- Analysis of staff turnover and steps taken to mitigate the risk in this area such as: staff selection, training and incentive systems;
- Monitoring and analysis of causes of key IT system failures.

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.

Continuity plans

Continuity plans have been implemented and tested in the PZU Group companies (PZU, PZU Życie, PZU AM, TFI PZU, PZU CO, PZU PTE) to ensure correct operation of the key processes in an event of a failure.

7.5.6. Compliance risk

The business activities of the PZU Group are exposed to the non-compliance risk. Internal regulations impose a division of competences regarding on-going and systemic management of the non-compliance risk.

Systemic management, which is mainly the responsibility of the Management Boards of PZU, PZU Życie and Risk Office, consists in particular in the following:

- Formulating solutions ensuring that the rules of non-compliance risk management are followed;
- Monitoring of the non-compliance risk management in PZU and PZU Życie;
- Promoting and monitoring the compliance of standards of conduct in PZU and PZU Życie through initiatives such as compliance training and internal communication.

Management activities regarding compliance risk include in particular monitoring of compliance of operations with regulatory requirements, preventing involvement in activities non-compliant with the valid regulatory requirements, good market practices or that can negatively impact the image and initiating appropriate preventive measures.

Ongoing management of the compliance risk (including identification, evaluation and measurement) and adjustment to regulatory requirements is the responsibility of managers of areas and organisational units in PZU and PZU Życie.

Identification and evaluation of the compliance risk is carried out in relation to classified internal processes by managers of organisational units, in accordance with assigned reporting responsibilities.

The compliance risk is measured and evaluated through determining of financial (e.g. administrative or contractual fines, court decisions or damages) or intangible effects of risk materialisation.

Mitoring of the compliance risk includes analysis of reports, review of regulatory requirements, participating in legislation work regarding amendments to common binding regulations, active participation in industrial organisations.

Compliance risk reporting to the Risk Office takes place on a quarterly basis. Company level risk reports are submitted to the Management Boards of PZY and PZU Życie.

8. Equity management

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 fun/a 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.

8.1 External capital requirements

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 (Dz. U. No. 211 of 2003, item 2060 with subsequent amendments, the "Solvency Margin Ordinance").

The required solvency margin for property and personal insurance is determined based on the premium or the average annual value of insurance claims. The higher of the aforementioned figures is regarded as the required solvency margin for insurance companies.

For life insurance the required solvency margin is calculated on the basis of the capital at risk, the value of technical provisions in life insurance as well as the provision for unearned premiums, whereas in the case of accident and sickness contracts – on the basis of the premium value.

The guarantee fund is equal to one third of the required solvency margin or the minimum amount of the guarantee fund specified in the Solvency Margin Ordinance, whichever higher.

The financial data relied upon in calculation of the value of own funds and the required solvency margin have been determined based on Polish Accounting Standards.

(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 2012**	**31 December 2011**
PZU equity	**13 452 581**	**11 745 410**
Intangible assets	(129 729)	(107 004)
Value of shares in insurance companies operating within the insurance capital group of PZU	(6 847 006)	(6 063 902)
Deferred tax asset	(309 132)	(363 384)
Effect of other insurance companies operating within the insurance capital group of PZU on the value of PZU’s own funds:	**4 789 418**	**3 980 944**
PZU Życie (100.00%)	4 808 768	3 988 423
Own funds	6 551 153	5 703 608
Required solvency margin	1 742 385	1 715 185
Surplus of own funds to cover the required solvency margin	4 808 768	3 988 423
UAB DK PZU Lietuva (99.76%)	2 769	4 229
Own funds	38 550	34 918
Required solvency margin	35 774	30 679
Surplus of own funds to cover the required solvency margin	2 776	4 239
OJSC IC PZU Ukraine (100.00%)	(15 721)	(14 206)
Own funds	5 987	6 715
Required solvency margin	21 708	20 921
Surplus of own funds to cover the required solvency margin	(15 721)	(14 206)
Other insurance companies	(6 398)	2 498
Own funds of PZU	**10 956 132**	**9 192 064**
Required solvency margin of PZU	1 343 831	1 338 798
Guarantee fund of PZU	447 944	446 266
Surplus of own funds to cover the required solvency margin	**9 612 301**	**7 853 266**
Surplus of own funds to cover the guarantee fund	**10 508 188**	**8 745 798**

(in PLN '000)

9. Intangible assets

As at 31 December 2012 and 31 December 2011 all intangible assets were manufactured externally.

Amortization of intangible assets by position in the consolidated income statement	**1 January – 31 December 2012**	**1 January – 31 December 2011**
Claims, benefits and change in technical provisions	17 764	12 583
benefits and change in measurement of investment contracts	9	50
Acquisition costs	16 843	8 041
Administrative expenses	39 283	35 657
Other operating expenses	110	260
Costs of investing activities	383	354
Total amortization	**74 392**	**56 945**

Changes in intangible assets 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
- change in the consolidation scope	114 634	102 786	-	-	114 634
- reclassification from intangible assets under construction	10	10 005	8 708	-	8 718
- other	(47 145)	(24 304)	(114 814)	(4)	(161 963)
Decreases (due to):	(46 143)	(23 089)	-	-	(46 143)
- liquidation	-	-	(114 634)	-	(114 634)
- reclassification from intangible assets under construction	(1 002)	(1 215)	(180)	(4)	(1 186)
- other	(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
- change in the consolidation scope	694	694	-	24	718
- exchange differences	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**

(in PLN '000)

Changes in intangible assets in the year ended 31 December 2011

	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	423 452	301 950	179 312	492	603 256
Increases (due to):	69 159	53 114	97 376	404	166 939
- purchase	16 361	14 546	97 376	34	113 771
- change in the consolidation scope	1 736	1 736	-	33	1 769
- reclassification from intangible assets under construction	51 062	36 832	-	-	51 062
- other	-	-	-	337	337
Decreases (due to):	(3 166)	(88)	(52 430)	-	(55 596)
- liquidation	(2 947)	(108)	-	-	(2 947)
- reclassification from intangible assets under construction	-	-	(51 062)	-	(51 062)
- other	(219)	20	(1 368)	-	(1 587)
Exchange differences	1 514	1 516	-	107	1 621
Gross value of intangible assets – closing balance	**490 959**	**356 492**	**224 258**	**1 003**	**716 220**
Accumulated amortization – opening balance	(330 990)	(250 473)	-	(100)	(331 090)
Changes (due to):	(57 022)	(50 891)	-	(122)	(57 144)
- amortization for the period	(56 883)	(47 878)	-	(62)	(56 945)
- liquidation	2 947	107	-	-	2 947
- change in the consolidation scope	(1 438)	(1 438)	-	(6)	(1 444)
- exchange differences	(872)	(877)	-	(24)	(896)
- other	(776)	(805)	-	(30)	(806)
Accumulated amortization – closing balance	**(388 012)**	**(301 364)**	**-**	**(222)**	**(388 234)**
Impairment losses – opening balance	(34 950)	(785)	(128 149)	-	(163 099)
Changes charged to other operating expenses	785	785	366	-	1 151
Impairment losses – closing balance	**(34 165)**	**-**	**(127 783)**	**-**	**(161 948)**
Net value of intangible assets – closing balance	**68 782**	**55 128**	**96 475**	**781**	**166 038**

"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 2011);
- 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 2011);
- the "Central Customer Database" project in the amount of PLN 6,255 thousand (PLN 6,255 thousand as at 31 December 2011).

(in PLN '000)

10. Goodwill

Goodwill	31 December 2012	31 December 2011
Goodwill – subsidiaries	8 474	8 716
- PZU CO	5 415	5 415
- PZU Życie	60	60
- PZU Lietuva	2 999	3 241
Goodwill total	**8 474**	**8 716**

Changes in goodwill	1 January – 31 December 2012	1 January – 31 December 2011
Gross value of goodwill – opening balance	22 039	20 035
Changes due to exchange differences	(1 588)	2 004
Gross value of goodwill – closing balance	20 451	22 039
Impairment losses opening balance	(13 323)	(11 654)
Changes in impairment losses	1 346	(1 669)
- exchange differences	1 346	(1 669)
Impairment losses closing balance	(11 977)	(13 323)
Net value of goodwill – closing balance	**8 474**	**8 716**

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 – 3.67% for PZU CO and 6.56% for PZU Lietuva;
- period for which financial forecasts were prepared by the Company's management – 1 year for PZU CO and PZU Lietuva, including financial plan for 2012-2014 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;

The maximum discount rates which do not result in a surplus of the carrying amount of investments over their recoverable amount are 30.98% for PZU CO, 10.73% for PZU Lietuva.

(in PLN '000)

11. Property, plant and equipment

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	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**

(in PLN '000)

Changes in property, plant and equipment in the year ended 31 December 2011	**Technical equipment and machines**	**Vehicles**	**Property, plant and equipment under construction**	**Real property**	**Other property, plant and equipment**	**Total property, plant and equipment**
Gross value of property, plant and equipment – opening balance	676 535	95 119	29 388	1 163 786	143 985	2 108 813
Increases (due to):	78 674	16 979	48 708	151 370	16 268	311 999
- purchase	9 364	3 725	39 258	9 229	2 885	64 461
- modernization and improvements	293	-	-	5 186	45	5 524
- change in the consolidation scope	50 765	4 453	9 450	111 836	10 193	186 697
- reclassification from investment property	-	-	-	16 669	-	16 669
- reclassification from assets under construction	18 252	8 801	-	8 450	3 145	38 648
Decreases (due to):	(86 739)	(11 318)	(38 648)	(103 816)	(13 608)	(254 129)
- sale	(6 558)	(11 164)	-	(22 602)	(2 807)	(43 131)
- liquidation	(73 697)	(154)	-	(3 116)	(9 286)	(86 253)
- reclassification to investment property	-	-	-	(73 660)	-	(73 660)
- reclassification from assets under construction	-	-	(38 648)	-	-	(38 648)
- other	(6 484)	-	-	(4 438)	(1 515)	(12 437)
Exchange differences	1 111	238	-	1 077	465	2 891
Gross value of property, plant and equipment – closing balance	**669 581**	**101 018**	**39 448**	**1 212 417**	**147 110**	**2 169 574**
Accumulated depreciation – opening balance	(600 335)	(53 399)	-	(289 907)	(109 224)	(1 052 865)
Changes (due to):	26 904	(5 478)	-	(32 742)	18	(11 298)
- depreciation for the period	(44 218)	(14 397)	-	(37 796)	(10 835)	(107 246)
- sale	3 277	9 904	-	5 084	2 638	20 903
- liquidation	73 565	150	-	830	8 799	83 344
- change in the consolidation scope	(9 628)	(992)	-	(15 145)	(1 733)	(27 498)
- reclassification to investment property	-	-	-	13 066	-	13 066
- exchange differences	(800)	(143)	-	(147)	(346)	(1 436)
- other	4 708	-	-	1 366	1 495	7 569
Accumulated depreciation – closing balance	**(573 431)**	**(58 877)**	**-**	**(322 649)**	**(109 206)**	**(1 064 163)**
Impairment losses – opening balance	(1 746)	-	(9 944)	(53 847)	-	(65 537)
Changes recognized in the financial profit/loss, including in:	-	-	(1 196)	14 078	-	12 882
- other operating expenses	-	-	(1 196)	-	-	(1 196)
- other operating revenue	-	-	-	14 078	-	14 078
Other changes	996	-	-	1 629	-	2 625
- reclassification to investment property	-	-	-	1 721	-	1 721
- exchange differences	-	-	-	(92)	-	(92)
- other	996	-	-	-	-	996
Impairment losses – closing balance	**(750)**	**-**	**(11 140)**	**(38 140)**	**-**	**(50 030)**
Net value of property, plant and equipment – closing balance	**95 400**	**42 141**	**28 308**	**851 628**	**37 904**	**1 055 381**

(in PLN '000)

12. Investment property

Investment property	31 December 2012	31 December 2011
Own land	187 963	190 308
Land perpetual usufruct right	54 672	59 270
Buildings and structures	303 066	267 985
Cooperative ownership of premises	18 703	16 659
Total investment property	**564 404**	**534 222**

Changes in investment property	1 January – 31 December 2012	1 January – 31 December 2011
Net book value – opening balance	534 222	441 014
Increases (due to)	40 590	83 017
- purchase	26	173
- change in the consolidation scope	-	23 767
- reclassification from real property used for internal purposes	40 564	58 873
- reclassification from construction investments	-	204
- other	(38 460)	(36 108)
Decreases (due to)	-	(15 457)
- sale and liquidation	(33 990)	(16 669)
- reclassification to real property used for internal purposes	(4 470)	-
- other	-	(3 982)
Net gain (loss) on remeasurement at fair value	28 200	46 115
- recognized in the financial profit/loss	7 514	(2 353)
- recognized directly in equity	20 686	48 468
Exchange differences	(148)	184
Net book value – closing balance	**564 404**	**534 222**

The position "Land perpetual usufruct right" contains a right to use a land for up to 99 years. Land perpetual usufruct right can be subject of sale.

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 between 2008-2011 (valuation of 48% of the carrying amount of investment property as at 31 December 2012 was performed in January 2012).

13. Financial assets

In 2012 and in 2011, financial instruments were not reclassified from groups carried at fair value to those carried at cost or amortized cost.

(in PLN '000)

13.1 Financial instruments held to maturity

Financial instruments held to maturity	31 December 2012			31 December 2011		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**21 117 559**	**21 117 559**	**22 788 354**	**21 659 505**	**21 659 505**	**21 793 906**
Debt securities	21 117 559	21 117 559	22 788 354	21 659 505	21 659 505	21 793 906
Government securities	20 906 285	20 906 285	22 572 525	21 467 316	21 467 316	21 600 961
Fixed rate	20 460 298	20 460 298	22 117 355	21 128 913	21 128 913	21 262 439
Floating rate	445 987	445 987	455 170	338 403	338 403	338 522
Other securities	211 274	211 274	215 829	192 189	192 189	192 945
Listed on a regulated market	91 256	91 256	95 811	66 566	66 566	67 322
Fixed rate	91 256	91 256	95 811	66 566	66 566	67 322
Not listed on a regulated market	120 018	120 018	120 018	125 623	125 623	125 623
Floating rate	120 018	120 018	120 018	125 623	125 623	125 623
Total financial instruments held to maturity	**21 117 559**	**21 117 559**	**22 788 354**	**21 659 505**	**21 659 505**	**21 793 906**

(in PLN '000)

Financial instruments held to maturity	31 December 2012	31 December 2011
Short-term	7 063 026	1 639 229
Long-term	14 054 533	20 020 276
Total financial instruments held to maturity	**21 117 559**	**21 659 505**

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**

Carrying amount of debt securities held to maturity (by redemption date) as at 31 December 2011	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	**1 639 229**	**6 904 920**	**1 036 281**	**2 395 537**	**146 833**	**9 536 705**	**21 659 505**
Government securities	1 639 229	6 904 920	1 036 281	2 391 432	136 874	9 358 580	21 467 316
fixed rate	1 639 229	6 904 920	1 036 281	2 391 432	74 043	9 083 008	21 128 913
Other	-	-	-	-	62 831	275 572	338 403
Listed on a regulated market	-	-	-	4 105	9 959	178 125	192 189
fixed rate	-	-	-	4 105	9 959	52 502	66 566
Not listed	-	-	-	4 105	9 959	52 502	66 566
fixed rate	-	-	-	-	-	125 623	125 623
floating rate	-	-	-	-	-	125 623	125 623
Total	**1 639 229**	**6 904 920**	**1 036 281**	**2 395 537**	**146 833**	**9 536 705**	**21 659 505**

(in PLN '000)

Financial instruments held to maturity	31 December 2012				31 December 2011			
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Total
Debt securities	**20 833 881**	**219 697**	**63 981**	**21 117 559**	**21 362 293**	**210 867**	**86 345**	**21 659 505**
Government securities	20 730 779	111 525	63 981	20 906 285	21 259 181	121 790	86 345	21 467 316
Fixed rate	20 284 792	111 525	63 981	20 460 298	20 920 778	121 790	86 345	21 128 913
Floating rate	445 987	-	-	445 987	338 403	-	-	338 403
Other securities	103 102	108 172	-	211 274	103 112	89 077	-	192 189
Listed on a regulated market	52 510	38 746	-	91 256	52 502	14 064	-	66 566
Fixed rate	52 510	38 746	-	91 256	52 502	14 064	-	66 566
Not listed on a regulated market	50 592	69 426	-	120 018	50 610	75 013	-	125 623
Floating rate	50 592	69 426	-	120 018	50 610	75 013	-	125 623
Total	**20 833 881**	**219 697**	**63 981**	**21 117 559**	**21 362 293**	**210 867**	**86 345**	**21 659 505**

(in PLN '000)

13.2 Financial instruments available for sale

Financial instruments available for sale	31 December 2012			31 December 2011		
	Carrying amount	Amortized cost	Fair value	Carrying amount	Amortized cost	Fair value
Instruments for which fair value may be determined	**3 798 153**	**n/a**	**3 798 153**	**7 723 676**	**n/a**	**7 723 676**
Equity instruments	1 800 137	n/a	1 800 137	1 189 903	n/a	1 189 903
Listed on regulated market	429 482	n/a	429 482	506 886	n/a	506 886
Not listed on regulated market	1 370 655	n/a	1 370 655	683 017	n/a	683 017
Debt securities	1 998 016	1 977 886	1 998 016	6 533 773	6 529 487	6 533 773
Government securities	1 627 215	1 621 414	1 627 215	6 467 372	6 462 609	6 467 372
Fixed rate	1 488 118	1 485 767	1 488 118	5 764 231	5 760 579	5 764 231
Floating rate	139 097	135 647	139 097	703 141	702 030	703 141
Other securities	370 801	356 472	370 801	66 401	66 878	66 401
Listed on regulated market	81 061	77 361	81 061	66 401	66 878	66 401
Fixed rate	81 061	77 361	81 061	23 745	23 059	23 745
Floating rate	-	-	-	42 656	43 819	42 656
Not listed on regulated market	289 740	279 111	289 740	-	-	-
Floating rate	289 740	279 111	289 740	-	-	-
Instruments for which fair value may not be determined	**126 348**	**n/a**	**n/a**	**128 227**	**n/a**	**n/a**
Equity instruments	126 348	n/a	n/a	128 227	n/a	n/a
Not listed on regulated market*	126 348	n/a	n/a	128 227	n/a	n/a
Total	**3 924 501**	**n/a**	**n/a**	**7 851 903**	**n/a**	**n/a**

* This item includes shares in controlled entities not included under consolidation, whose carrying amount as at 31 December 2012 was PLN 121.347 thousand (as at 31 December 2011: PLN 125.140). As at 31 December 2012 and 31 December 2011, no fair value was determined of equity instruments not quoted on regulated markets since this approach was not practicable due to the number and specifics of these companies (not consolidated controlled entities are presented in point 2.2), which would result in substantial costs related to such periodic measurement with a significant margin of error of the estimates.

(in PLN '000)

Financial instruments available for sale	**31 December 2012**	**31 December 2011**
Short-term	141 232	1 844 004
Long-term	3 783 269	6 007 899
Total financial instruments available for sale	**3 924 501**	**7 851 903**

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 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**

Carrying amount of debt financial instruments available for sale as at 31 December 2011	**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	**1 384 426**	**1 158 730**	**1 084 865**	**815 845**	**1 000 697**	**1 089 210**	**6 533 773**
Government securities	1 384 426	1 116 074	1 084 865	815 845	1 000 697	1 065 465	6 467 372
Fixed rate	1 384 426	1 116 074	1 084 865	815 845	434 330	928 691	5 764 231
Floating rate	-	-	-	-	566 367	136 774	703 141
Other securities	-	42 656	-	-	-	23 745	66 401
Listed on regulated market	-	42 656	-	-	-	23 745	66 401
Fixed rate	-	-	-	-	-	23 745	23 745
Floating rate	-	42 656	-	-	-	-	42 656
Total	**1 384 426**	**1 158 730**	**1 084 865**	**815 845**	**1 000 697**	**1 089 210**	**6 533 773**

(in PLN '000)

Financial instruments available for sale	31 December 2012						31 December 2011					
	PLN	USD	EUR	LTL	UAH	Total	PLN	USD	EUR	LTL	UAH	Total
Equity instruments	**1 857 508**	**77**	**100**	**40 235**	**28 565**	**1 926 485**	**1 248 132**	**69**	**79**	**40 235**	**29 615**	**1 318 130**
Listed on a regulated market	429 482	-	-	-	-	429 482	506 195	-	-	-	691	506 886
Not listed on a regulated market	1 428 026	77	100	40 235	28 565	1 497 003	741 937	69	79	40 235	28 924	811 244
Debt securities	**1 884 011**	**-**	**114 005**	**-**	**-**	**1 998 016**	**6 054 060**	**-**	**479 713**	**-**	**-**	**6 533 773**
Government securities	1 567 767	-	59 448	-	-	1 627 215	5 987 659	-	479 713	-	-	6 467 372
Fixed rate	1 428 670	-	59 448	-	-	1 488 118	5 284 518	-	479 713	-	-	5 764 231
Floating rate	139 097	-	-	-	-	139 097	703 141	-	-	-	-	703 141
Other securities	316 244	-	54 557	-	-	370 801	66 401	-	-	-	-	66 401
Listed on a regulated market	26 504	-	54 557	-	-	81 061	66 401	-	-	-	-	66 401
Fixed rate	26 504	-	54 557	-	-	81 061	23 745	-	-	-	-	23 745
Floating rate	-	-	-	-	-	-	42 656	-	-	-	-	42 656
Not listed on a regulated market	289 740	-	-	-	-	289 740	-	-	-	-	-	-
Floating rate	289 740	-	-	-	-	289 740	-	-	-	-	-	-
Total	**3 741 519**	**77**	**114 105**	**40 235**	**28 565**	**3 924 501**	**7 302 192**	**69**	**479 792**	**40 235**	**29 615**	**7 851 903**

(in PLN '000)

13.3 Financial instruments measured at fair value through profit or loss

As at 31 December 2012 and 31 December 2011, 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 2012**	**31 December 2011**
Instruments for which fair value may be determined	**8 386 949**	**4 363 764**
Equity instruments	172 252	118 727
Listed on a regulated market	5 319	11 240
Not lised on a regulated market	166 933	107 487
Debt securities	8 214 697	4 245 037
Government securities	8 144 078	4 178 520
Fixed rate	6 240 183	3 719 321
Floating rate	1 903 895	459 199
Other securities	70 619	66 517
Listed on a regulated market	26 647	66 517
Fixed rate	26 647	23 861
Floating rate	-	42 656
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	**8 386 949**	**4 363 764**

Financial instruments measured at fair value through profit or loss – held for trading	**31 December 2012**	**31 December 2011**
Instruments for which fair value may be determined	**7 241 452**	**6 450 855**
Equity instruments	4 226 889	3 723 493
Listed on a regulated market	1 968 840	1 989 010
Not lised on a regulated market	2 258 049	1 734 483
Debt securities	2 850 493	2 642 574
Government securities	2 799 572	2 597 771
Fixed rate	2 551 501	1 870 647
Floating rate	248 071	727 124
Other securities	50 921	44 803
Equity instruments	50 921	44 803
Listed on a regulated market	-	24 402
Not lised on a regulated market	50 921	20 401
Derivatives	164 070	84 788
Total financial instruments measured at fair value through profit or loss – held for trading	**7 241 452**	**6 450 855**

Financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**31 December 2012**	**31 December 2011**
Short-term	292 250	914 798
Long-term	8 094 699	3 448 966
Total financial instruments measured at fair value through profit or loss - classified as such upon initial recognition	**8 386 949**	**4 363 764**

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 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**

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 2011	**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	**809 818**	**751 562**	**802 953**	**578 899**	**574 445**	**727 360**	**4 245 037**
Government securities	809 818	708 906	802 953	578 899	574 329	703 615	4 178 520
Fixed rate	809 818	708 906	802 953	568 732	204 311	624 601	3 719 321
Floating rate	-	-	-	10 167	370 018	79 014	459 199
Other securities	-	42 656	-	-	116	23 745	66 517
Listed on a regulated market	-	42 656	-	-	116	23 745	66 517
Fixed rate	-	-	-	-	116	23 745	23 861
Floating rate	-	42 656	-	-	-	-	42 656
Total	**809 818**	**751 562**	**802 953**	**578 899**	**574 445**	**727 360**	**4 245 037**

(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 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
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**

Carrying amount of debt instruments measured at fair value through profit or loss – held for trading – by redemption date as at 31 December 2011	**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	**43 503**	**595 440**	**287 731**	**416 326**	**717 117**	**582 457**	**2 642 574**
Government securities	19 101	595 440	287 731	416 326	717 117	562 056	2 597 771
Fixed rate	19 101	595 440	287 731	416 326	213 427	338 622	1 870 647
Floating rate	-	-	-	-	503 690	223 434	727 124
Other securities	24 402	-	-	-	-	20 401	44 803
Listed on a regulated market	24 402	-	-	-	-	20 401	44 803
Fixed rate	24 402	-	-	-	-	-	24 402
Floating rate	-	-	-	-	-	20 401	20 401
Total	**43 503**	**595 440**	**287 731**	**416 326**	**717 117**	**582 457**	**2 642 574**

(in PLN '000)

Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition	31 December 2012				31 December 2011				
	PLN	EUR	LTL	Total	PLN	EUR	LTL	Other	Total
Equity instruments	**169 401**	**-**	**2 851**	**172 252**	**109 317**	**8 324**	**316**	**770**	**118 727**
Listed on a regulated market	2 839	-	2 480	5 319	1 830	8 324	316	770	11 240
Not listed on a regulated market	166 562	-	371	166 933	107 487	-	-	-	107 487
Debt securities	**8 195 120**	**4 597**	**14 980**	**8 214 697**	**4 244 921**	**116**	**-**	**-**	**4 245 037**
Government securities	8 124 643	4 455	14 980	8 144 078	4 178 520	-	-	-	4 178 520
Fixed rate	6 220 748	4 455	14 980	6 240 183	3 719 321	-	-	-	3 719 321
Floating rate	1 903 895	-	-	1 903 895	459 199	-	-	-	459 199
Other securities	70 477	142	-	70 619	66 401	116	-	-	66 517
Lised on a regulated market	26 505	142	-	26 647	66 401	116	-	-	66 517
Fixed rate	26 505	142	-	26 647	23 745	116	-	-	23 861
Floating rate	-	-	-	-	42 656	-	-	-	42 656
Not listed on a regulated market	43 972	-	-	43 972	-	-	-	-	-
Floating rate	43 972	-	-	43 972	-	-	-	-	-
Total	**8 364 521**	**4 597**	**17 831**	**8 386 949**	**4 354 238**	**8 440**	**316**	**770**	**4 363 764**

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)

Financial instruments measured at fair value through profit or loss – held for trading	31 December 2011				
	PLN	**USD**	**EUR**	**Other**	**Total**
Equity instruments	**3 611 499**	**68 371**	**43 623**	**-**	**3 723 493**
Listed on a regulated market	1 959 982	29 028	-	-	1 989 010
Not listed on a regulated market	1 651 517	39 343	43 623	-	1 734 483
Debt securities	**2 253 906**	**136 472**	**252 196**	**-**	**2 642 574**
Government securities	2 209 103	136 472	252 196	-	2 597 771
Fixed rate	1 481 979	136 472	252 196	-	1 870 647
Floating rate	727 124	-	-	-	727 124
Other securities	44 803	-	-	-	44 803
Not listed on a regulated market	44 803	-	-	-	44 803
Fixed rate	24 402	-	-	-	24 402
Floating rate	20 401	-	-	-	20 401
Derivatives	**52 006**	**2 068**	**2 414**	**28 300**	**84 788**
Total	**5 917 411**	**206 911**	**298 233**	**28 300**	**6 450 855**

(in PLN '000)

13.4 Loans

Loans	**31 December 2012**	**31 December 2011**
Short-term	6 622 965	5 133 705
Long-term	3 129 650	1 315 627
Loans total	**9 752 615**	**6 449 332**

Loans as at 31 December 2012	**Carrying amount by maturity date**						
	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	**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 securities	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 securities, including:	**6 611 190**	**161 934**	**216 686**	**65 065**	**109 830**	**839 076**	**8 003 781**
- repo 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**

* Over 60% investments in credit institutions mature before 31 March 2013 and over 81% investments have the maturity date of 30 June 2013.

Loans as at 31 December 2011	**Carrying amount by maturity date**						
	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	**10 954**	**-**	**50 762**	**5 329**	**47 098**	**-**	**114 143**
Government securities	-	-	-	5 329	-	-	5 329
Fixed rate	-	-	-	5 329	-	-	5 329
Other securities	10 954	-	50 762	-	47 098	-	108 814
Listed on a regular market	860	-	50 762	-	-	-	51 622
Fixed rate	860	-	-	-	-	-	860
Floating rate	-	-	50 762	-	-	-	50 762
Not listed on a regular market	10 094	-	-	-	47 098	-	57 192
Floating rate	10 094	-	-	-	47 098	-	57 192
Other securities, including:	**5 122 751**	**286 660**	**43 998**	**4 006**	**32 264**	**845 510**	**6 335 189**
- repo transactions	628 497	-	-	-	-	-	628 497
- term deposits with credit institutions	4 493 847	286 660	43 998	4 006	-	-	4 828 511
- deposits with ceding undertakings	407	-	-	-	-	-	407
- loans	-	-	-	-	32 264	845 510	877 774
Total	**5 133 705**	**286 660**	**94 760**	**9 335**	**79 362**	**845 510**	**6 449 332**

(in PLN '000)

Both as at 31 December 2012 and 31 December 2011 the fair value of loans did not differ substantially from their carrying amount.

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**
- repo 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**

Loans as at 31 December 2011	PLN	USD	EUR	LTL	UAH	Total
Debt securities	**107 954**	**-**	**-**	**-**	**6 189**	**114 143**
Government securities	-	-	-	-	5 329	5 329
Fixed rate	-	-	-	-	5 329	5 329
Other securities	107 954	-	-	-	860	108 814
Listed on a regular market	50 762	-	-	-	860	51 622
Fixed rate	-	-	-	-	860	860
Floating rate	50 762	-	-	-	-	50 762
Not listed on a regular market	57 192	-	-	-	-	57 192
Floating rate	57 192	-	-	-	-	57 192
Other securities, including:	**6 129 292**	**24 449**	**96 764**	**8 954**	**75 730**	**6 335 189**
- repo transactions	628 497	-	-	-	-	628 497
- term deposits with credit institutions	4 626 241	24 339	96 467	8 954	72 510	4 828 511
- deposits with ceding undertakings	-	110	297	-	-	407
- loans	874 554	-	-	-	3 220	877 774
Loans total	**6 237 246**	**24 449**	**96 764**	**8 954**	**81 919**	**6 449 332**

Other loans

Type of loan	31 December 2012	31 December 2011
Mortgage loans	26 848	32 264
Loans with collaterals such as pledges on shares, liability portfolios as well as bank accounts, other loans or other forms of collateral	991 402	842 290
Not collateralized loans	2 871	3 220
Total	**1 021 121**	**877 774**

(in PLN '000)

13.5 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. Acronyms of debt instruments assigned to individual portfolios: UTW – held to maturity, DDS – available for sale, WG_MPR – measured through profit/loss – classified to that category upon initial recognition, WG_PDO – measured at fair value through profit/loss – held for trading, POZ – loans.

13.5.1. Debt securities issued by treasuries other than Polish treasury

As at 31 December 2012	Currency	Classification	Purchase price	Carrying amount	Fair value	Adjusted acquisition price	Impair-ment loss
Germany	EUR	DDS	62 787	59 448	59 448	57 636	-
Romania	EUR	WG_PDO	340 284	344 041	344 041	335 940	-
Iceland	USD	WG_PDO	220 577	227 493	227 493	204 558	-
Slovenia	EUR	WG_PDO	109 990	115 576	115 576	110 776	-
Slovenia	USD	WG_PDO	77 104	81 735	81 735	77 100	-
Lithuania	LTL	UTW	57 395	63 981	67 105	63 981	-
Lithuania	EUR	UTW	39 989	39 909	43 200	39 909	-
Lithuania	LTL	WG_MPR	15 164	14 980	14 980	14 968	-
Lithuania	EUR	WG_MPR	4 455	4 455	4 455	4 455	-
Ukraine	UAH	POZ	17 114	14 090	n/a	14 090	-
Ukraine	USD	POZ	3 344	3 206	3 294	3 206	-
Hungary	EUR	UTW	2 278	2 430	2 459	2 430	-
Hungary	CHF	WG_PDO	8 685	8 613	8 613	8 690	-
Hungary	EUR	WG_PDO	37 319	41 157	41 157	36 286	-
Hungary	HUF	WG_PDO	270 683	264 689	264 689	264 575	-
Total			**1 267 168**	**1 285 803**	**n/a**	**1 238 600**	**-**

As at 31 December 2011	Currency	Classification	Purchase price	Carrying amount	Fair value	Adjusted acquisition price	Impair-ment loss
Germany	EUR	DDS	478 751	479 713	479 713	476 773	-
Iceland	USD	WG_PDO	47 567	50 044	50 044	49 454	-
Lithuania	LTL	UTW	67 269	86 344	87 168	86 344	-
Lithuania	EUR	UTW	41 354	43 375	44 265	43 375	-
Ukraine	UAH	POZ	4 864	5 329	n/a	5 329	-
Hungary	EUR	UTW	2 278	2 628	2 413	2 628	-
Total			**642 083**	**667 433**	**n/a**	**663 903**	**-**

(in PLN '000)

13.5.2. Debt securities issued by companies and local government authorities

As at 31 December 2012	Currency	Classification	Purchase price	Carrying amount	Fair value	Adjusted acquisition price
Companies from WIG – Banki	DDS	93 065	94 123	94 123	93 693	-
	WG_MPR	43 588	43 972	43 972	43 803	-
	UTW	64 838	64 150	n/a	64 150	-
	POZ	890 000	907 781	n/a	907 781	-
	WG_PDO	25 000	25 166	25 166	25 090	-
Companies from WIG-Paliwa	DDS	234 390	250 173	250 173	239 695	-
	POZ	700 000	701 234	n/a	701 233	-
	WG_PDO	25 000	25 755	25 755	24 484	-
Domestic banks not listed	POZ	65 000	66 866	n/a	66 866	-
Foreign banks	WG_MPR	102	142	142	120	-
	UTW	78 236	78 678	n/a	78 678	-
	POZ	8 700	8 570	n/a	8 570	-
Local authorities	DDS	22 816	26 505	26 505	23 084	-
	WG_MPR	22 816	26 505	26 505	23 084	-
	UTW	50 000	52 509	54 398	52 509	-
Other	UTW	15 805	15 937	15 842	15 937	-
	POZ	47 000	47 087	n/a	47 087	-
Other impaired	DDS	11 630	-	-	-	11 630
Total		**2 397 986**	**2 435 153**	n/a	**2 415 864**	**11 630**

As at 31 December 2011	Currency	Classification	Purchase price	Carrying amount	Fair value	Adjusted acquisition price
Companies from WIG – Banki	DDS	43 588	42 656	42 656	43 819	-
	WG_MPR	43 588	42 656	42 656	43 819	-
	UTW	58 692	59 140	n/a	59 140	-
	POZ	50 000	50 762	n/a	50 762	-
	WG_PDO	49 292	44 803	44 803	49 616	-
Foreign banks	WG_MPR	102	116	116	109	-
	UTW	74 384	80 547	80 013	80 547	-
	POZ	704	860	860	860	-
Local authorities	DDS	22 816	23 745	23 745	23 059	-
	WG_MPR	22 816	23 745	23 745	23 059	-
	UTW	50 000	52 502	53 716	52 502	-
Other	POZ	57 000	57 192	n/a	57 192	-
Other impaired	DDS	12 892	-	-	-	12 892
Total		**485 874**	**478 724**	**n/a**	**484 484**	**12 892**

13.6 Fair value

13.6.1. Fair value classification

Based on fair value determining methods applied, each asset and liability was classified to the following levels:

- Level I – Financial instruments measured based on listed prices (unadjusted) from active markets for identical assets and liabilities. The level includes:
  - listed liquid debt securities;

(in PLN '000)

- listed shares;
- listed derivatives.

- Level II – financial instruments 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.
- Level III – financial instruments measured based on input data unobserved on the existing markets (unobservable input data).

Assets and Financial liabilities measured at fair value as at 31 December 2012	Level I	Level II	Level III	Total
Assets				
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
Carrying amount of debt 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
Financial liabilities				
Derivatives	-	129 921	-	129 921

Assets and Financial liabilities measured at fair value as at 31 December 2011	Level I	Level II	Level III	Total
Assets				
Financial instruments available for sale	7 039 968	683 017	691	7 723 676
Equity instruments	506 195	683 017	691	1 189 903
Debt securities	6 533 773	-	-	6 533 773
Carrying amount of debt instruments measured at fair value through profit or loss - classified as such upon initial recognition	4 256 277	107 487	-	4 363 764
Equity instruments	11 240	107 487	-	118 727
Debt securities	4 245 037	-	-	4 245 037
Financial instruments measured at fair value held for trading	4 586 781	1 864 074	-	6 450 855
Equity instruments	1 989 010	1 734 483	-	3 723 493
Debt securities	2 597 771	44 803	-	2 642 574
Derivatives	-	84 788	-	84 788
Financial liabilities				
Derivatives	24	93 419	-	93 443

13.6.2. Reclassifications between Levels I and II

As at 31 December 2012 certain debt securities were reclassified from Level 1 to Level 2 due to absence of a liquid market for them. Financial instruments classified as available for sale of PLN 690,221 thousand measured at fair value through prodit or loss classified as such upon initial recognition in the amount of PLN 312,716 thousand and held for trading in the amount of PLN 82,963 thousand were reclassified.

In 2011 no reclassifications between Levels I and II material from viewpoint of the financial profit/loss and total assets and liabilities took place.

(in PLN '000)

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

In 2012 and 2011, PZU or its subsidiaries did not change the method of measuring fair value of financial instruments measured at fair value.

14. Receivables, including under insurance contracts

Receivables, including under insurance contracts – carrying amount	31 December 2012	31 December 2011
Receivables from direct insurance, including:	1 368 993	1 378 054
- receivables from policyholders	1 193 159	1 268 320
- receivables from insurance intermediaries	139 418	84 511
- other receivables	36 416	25 223
Receivables from reinsurance	15 099	33 987
Other receivables	451 701	322 595
Net receivables, including under insurance contracts	**1 835 793**	**1 734 636**

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 2012	31 December 2011
Up to 1 year	1 804 187	1 696 626
Over 1 year and up to 5 years	29 513	35 360
Over 5 years	2 093	2 650
Receivables, including under insurance contracts – by contractual maturity	**1 835 793**	**1 734 636**

(in PLN '000)

14.1 Other receivables

Other receivables	31 December 2012	31 December 2011
Receivables from the State Budget, other than due to income tax	4 946	2 449
Receivables from Metro Projekt sp. z o.o. claimed at court	98 373	96 491
Receivables relating to prevention activities	56 837	43 057
Advance payments	1 337	3 116
Receivables from PZU OPF	3 454	2 756
Receivables from claims handling services	5 452	6 326
Receivables of life insurance capital funds	43 987	4 014
Receivables from disposal of securities and collateral deposits	134 276	57 667
Trade receivables	79 370	89 426
Other	23 669	17 293
Other receivables	**451 701**	**322 595**

Receivables from Metro Projekt sp. z o.o. and related matters have been described in point **Błąd! Nie można odnaleźć źródła odwołania.**.

14.2 Receivables due to operating leases

Operating leases concern mainly property lease agreements.

Future minimum receivables from lease payments	31 December 2012	31 December 2011
Up to 1 year	13 545	17 532
Over 1 year and up to 5 years	11 478	19 879
Over 5 years	2 341	301
Future minimum receivables from lease payments	**27 364**	**37 712**

15. Reinsurers' share in technical provisions

Reinsurers' share in technical provisions – property and personal insurance	31 December 2012	31 December 2011
Provision for unearned premiums	190 865	163 937
Provision for unexpired risks	5	167
Provisions for claims outstanding, including:	304 051	283 085
- for claims reported	234 276	233 774
- for claims incurred but not reported (IBNR)	55 337	37 503
- for claims handling costs	14 438	11 808
Provision for capitalized value of annuity claims	254 413	253 524
Reinsurers' share in technical provisions	**749 334**	**700 713**

Reinsurers' share in technical provisions – property and personal insurance	31 December 2012	31 December 2011
Short-term	170 542	172 358
Long-term	578 792	528 355
Reinsurers' share in technical provisions	**749 334**	**700 713**

(in PLN '000)

16. Impairment of financial assets and receivables

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 (not recognized in the income statement)	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**

Changes in impairment losses on financial assets in the year ended 31 December 2011	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 (not recognized in the income statement)	Exchange differences	Other changes in impairment losses	Impairment losses – closing balance
Financial assets available for sale	296 919	16 352	-	(60 147)	248	-	253 372
- equity instruments	296 919	16 352	-	(60 147)	248	-	253 372
Loans	18 321	9 780	-	-	669	-	28 770
Term deposits with credit institutions	-	9 780	-	-	654	-	10 434
Loans	18 321	-	-	-	15	-	18 336
Receivables, including under insurance contracts	507 659	147 596	(61 677)	(13 756)	1 400	(13)	581 209
Receivables from direct insurance	423 260	93 258	(3 089)	(1 705)	1 135	(4)	512 855
Receivables from reinsurance	18 544	51 801	(53 892)	(11 605)	-	-	4 848
Other receivables	65 855	2 537	(4 696)	(446)	265	(9)	63 506
Reinsurers' share in technical provisions	36 372	7 378	(25 137)	-	-	-	18 613
Total	**859 271**	**181 106**	**(86 814)**	**(73 903)**	**2 317**	**(13)**	**881 964**

(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*	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**

* including PLN 98.373 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in point 54.8 of the notes.

(in PLN '000)

Credit quality of financial assets as at 31 December 2011	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	**-**	**21 659 505**	**-**	**-**	**-**	**21 659 505**	**-**	**-**	**21 659 505**
Debt securities	-	21 659 505	-	-	-	21 659 505	-	-	21 659 505
Financial assets available for sale	**-**	**6 533 773**	**-**	**-**	**-**	**6 533 773**	**-**	**-**	**6 533 773**
Debt securities	-	6 533 773	-	-	-	6 533 773	-	-	6 533 773
Loans	**-**	**6 449 332**	**-**	**-**	**-**	**6 449 332**	**28 770**	**-**	**6 478 102**
Debt securities	-	114 143	-	-	-	114 143	-	-	114 143
Reverse repo transactions	-	628 497	-	-	-	628 497	-	-	628 497
Term deposits with credit institutions	-	4 828 511	-	-	-	4 828 511	10 434	-	4 838 945
Deposits with ceding undertakings	-	407	-	-	-	407	-	-	407
Loans	-	877 774	-	-	-	877 774	18 336	-	896 110
Receivables, including under insurance contracts	**37 269**	**1 417 262**	**72 893**	**32 656**	**174 556**	**1 734 636**	**91 932**	**489 277**	**2 315 845**
Receivables from direct insurance	32 148	1 178 223	64 277	29 940	73 466	1 378 054	25 257	487 598	1 890 909
Receivables from reinsurance	5 121	28 852	-	-	14	33 987	4 848	-	38 835
Other receivables	-	210 187	8 616	2 716	101 076*	322 595	61 827	1 679	386 101
Reinsurers' share in technical provisions	**60 202**	**640 511**	**-**	**-**	**-**	**700 713**	**18 613**	**-**	**719 326**
Total	**97 471**	**36 700 383**	**72 893**	**32 656**	**174 556**	**37 077 959**	**139 315**	**489 277**	**37 706 551**

* including PLN 96.491 thousand due to a mortgage loan extended to Metro-Projekt sp. z o.o. described in point 54.8 of the notes.

(in PLN '000)

17. Estimated recoveries and recourses

Estimated recoveries and recourses	31 December 2012	31 December 2011
Estimated recourses	120 373	82 032
Estimated recoveries	1 259	657
Estimated subsidies	-	428
Total	**121 632**	**83 117**

Estimated recoveries and recourses	31 December 2012	31 December 2011
Short-term	64 101	48 460
Long-term	57 531	34 657
Total	**121 632**	**83 117**

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.

(in PLN '000)

18. Deferred tax asset

Changes in deferred tax asset 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*	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**

* 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.

(in PLN '000)

Changes in deferred tax asset in the year ended 31 December 2011	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehensive income	Change in the consolidation scope	Exchange differences	Closing balance
Financial Instruments	(1 247)	137	123	-	(82)	(1 069)
Receivables	-	3	-	420	(1)	422
Properties	(2 607)	(5 554)	(195)	372	-	(7 984)
Provisions for jubilee bonuses, retirement severance pay etc.	314	145	-	-	-	459
Provision for bonuses and appropriation to the bonus fund	502	269	-	-	-	771
Provision for paid vacation	-	51	-	-	7	58
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	38	276	-	-	-	314
Other provisions and accruals	2 075	856	-	478	175	3 584
Tax losses to be used in future periods	15 759	(5 283)	-	-	-	10 476
Provision for PTE's reimbursement of undue handling fees to the Social Insurance Institution	1 811	(242)	-	-	-	1 569
Total deferred tax asset	**16 645**	**(9 342)**	**(72)**	**1 270**	**99**	**8 600**

(in PLN '000)

Deductible temporary differences relating to measurement of shares in non-consolidated entities of the PZU Group for which no deferred tax asset was recognized amounted to PLN 37,595 thousand as at 31 December 2012 (PLN 36,276 thousand as at 31 December 2011).

Unrecognized deferred tax assets are related to tax losses amounted to PLN 73,150 thousand (PLN 81,901 thousand as at 31 December 211) incurred by PZU Lietuva that can be realized in subsequent periods.

19. Current income tax receivables

Current income tax receivables	31 December 2012	31 December 2011
Short-term	80 646	8 582
Long-term	-	-
Total current income tax receivables	**80 646**	**8 582**

20. Deferred acquisition costs

Deferred acquisition costs	31 December 2012	31 December 2011
Short-term	512 890	504 458
Long-term	61 599	65 385
Total	**574 489**	**569 843**

20.1 Deferred acquisition costs – property and personal insurance

Changes in deferred acquisition costs in property and personal insurance	1 January – 31 December 2012	1 January – 31 December 2011
Net value – opening balance	504 458	470 497
Deferred acquisition costs	538 880	524 323
Amortization for the period	(529 086)	(491 452)
Exchange differences	(1 362)	1 090
Net value – closing balance	**512 890**	**504 458**

20.2 Deferred acquisition costs – life insurance

Changes in deferred acquisition costs in life insurance	1 January – 31 December 2012	1 January – 31 December 2011
Net value – opening balance	65 385	70 232
Deferred acquisition costs	-	-
Amortization for the period	(3 786)	(4 847)
Net value – closing balance	**61 599**	**65 385**

21. Prepayments

Prepayments	31 December 2012	31 December 2011
IT expenses	11 274	6 217
Deferred acquisition costs relating to OFE PZU	5 625	23 400
Prepayments relating to reinsurance	54 335	85 366
Other	23 708	10 907
Prepayments total	**94 942**	**125 890**

(in PLN '000)

Prepayments	31 December 2012	31 December 2011
Short-term	91 547	121 486
Long-term	3 395	4 404
Rozliczenia międzyokresowe, razem	**94 942**	**125 890**

22. Other assets

Other assets	31 December 2012	31 December 2011
Inventories, including:	80 214	116 266
- materials	36 026	49 883
- products and goods	43 801	65 628
- claim recoveries	387	755
Other assets	3 490	4 195
Other assets total	**83 704**	**120 461**

Other assets	31 December 2012	31 December 2011
Short-term	83 704	120 461
Long-term	-	-
Other assets total	**83 704**	**120 461**

Inventories

Inventories (other information)	31 December 2012	31 December 2011
Net book value of inventories (claim recoveries) carried at fair value less costs to sell	409	755
Book value of inventories pledged as security for liabilities	39 600	39 600

In 2012 the companies in the PZU Group recognized a reverseal of impairment loss on the inventories of PLN 498 thousand (in 2011 recognition of impairment loss of PLN 537 thousand).

23. Cash and cash equivalents

Structure of cash and cash equivalents disclosed in the balance sheet and in the cash flow statement	31 December 2012	31 December 2011
Cash in hand and at bank	126 440	224 967
Other cash	10 146	12 757
Structure of cash and cash equivalents disclosed in the balance sheet and in the cash flow statement total	**136 586**	**237 724**

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.

(in PLN '000)

24. Assets available for sale

Non-current assets held for sale before reclassification	31 December 2012	31 December 2011
Property, plant and equipment	42 492	-
Investment property	4 470	-
Non-current assets held for sale and disposal groups total	**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 41,821 thousand.

25. Issued capital and reserves attributable to equity holders of the parent company

25.1 Share capital

All shares are fully paid.

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	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	-	7 602	7 602	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	-	60 438 718	60 438 718	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	-	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 2011

Series/ issue	Share type	Type of preference	Type of limitation of rights issues	Number of shares	Nominal value of series/issue	Capital coverage	Registration date	Cum dividend (as from)
A	registered	non-preference	-	7 602	7 602	cash	23.01.1997	27.12.1991
A	bearer's	non-preference	-	60 438 718	60 438 718	cash	23.01.1997	27.12.1991
B	bearer's	non-preference	-	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**			

(in PLN '000)

25.1.1. Shareholders of PZU

Table below presents shareholders structure including shareholders holding at least 5% of the votes at the Shareholders' Meeting:

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%**

As at 31 December 2011

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	ING Otwarty Fundusz Emerytalny	4 339 308	5,0251%
3	Other shareholders	51 627 739	59,7874%
Total		**86 352 300**	**100,0000%**

25.1.2. Transactions involving significant packages of PZU shares

In the period from 1 January 2012 to the date of these consolidated financial statements, a significant change took place in the ownership structure of material blocks of shares of PZU, whereby the number of PZU shares held by ING Otwarty Fundusz Emerytalny ("ING OFE"), managed by ING Powszechne Towarzystwo Emerytalne S.A., decreased.

On 24 July 2012, as a result of settlement of transactions, the number of ING OFE's shares in PZU dropped below 5% votes at the General Shareholders' Meeting PZU. Before the disposal of PZU shares, ING OFE held 4,323,801 shares accounting for 5.01% of the share capital of PZU and the same interest in the total number of votes. After the change, the stake of ING OFE totalled 4,266,518 PZU shares, accounting for 4.94% of interest in the share capital of PZU and the total number of votes.

After the acquisition of shares on 1 February 2013, the stake of ING OFE went up to 4,356,139 PZU shares accounting for 5.04% of interest in the share capital of PZU and the total number of votes.

25.1.3. Highest-level parent company of PZU

As at 31 December 2012 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, the 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 2012 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 2011

On 12 April 2012, PZU Management Board passed a resolution regarding distribution of profit for 2011 financial year, recommending payment of dividend of PLN 1,752,952 thousand, i.e. PLN 20.30 per share. On 8 May 2012, the recommendation was approved by PZU Supervisory Board and presented to General Shareholders Meeting for consideration.

(in PLN '000)

On 30 May 2012, General Shareholders Meeting distributed the 2011 net profit of PLN 2,582,303 thousand in the following manner:

- PLN 1,936,882 thousand for dividend paid to shareholders, i.e. PLN 22.43 per share (more than originally recommended by the Management Board);
- PLN 635,421 thousand for supplementary capital;
- PLN 10,000 thousand to the Company's Social Benefits Fund.

The cum dividend date was determined at 30 August 2012, and the dividend payment date at 20 September 2012.

Further, following court's cancellation of a resolution of the General Shareholders Meeting regarding distribution of profit for 2006 in the amount of PLN 3,280,883 thousand, GSM decided to distribute the 2006 profit in a manner corresponding to the distribution based on the cancelled resolution, i.e.:

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

The issue has been described in details in point 54.1 of Notes.

25.1.4.2. Distribution of profit for 2012

By the date of signing these financial statements, the Management Board of the Company had not adopted a resolution on the proposed distribution of the net profit for the year ended 31 December 2012.

25.2 Revaluation reserve

Revaluation reserve	**31 December 2012**	**31 December 2011**
Revaluation of financial instruments available for sale	238 961	161 307
Reclassification of real property from property, plant and equipment to investment property	124 281	107 524
Revaluation reserve total	**363 242**	**268 831**

Changes in revaluation reserve due to revaluation of financial instruments available for sale	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Opening balance	161 307	323 956
Changes	77 654	(162 649)
- change in fair value	502 017	(108 699)
- impairment losses	14 546	67 680
- sale	(438 909)	(121 630)
Closing balance	**238 961**	**161 307**

26. Exchange differences from translation

Exchange differences from translation	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Opening balance	(32 263)	(38 799)
Changes relating to subsidiaries	(5 741)	6 536
Closing balance	**(38 004)**	**(32 263)**

(in PLN '000)

27. Technical provisions

27.1 Technical provisions – property and personal insurance

Technical provisions - property and personal insurance	31 December 2012	31 December 2011
Provision for unearned premiums	4 435 516	4 411 652
Provision for unexpired risks	8 202	13 411
Provisions for claims outstanding	5 362 089	4 817 359
Provision for capitalized value of annuity claims	5 660 281	5 088 626
Provisions for bonuses and rebates for the insured	2 812	6 232
Total	**15 468 900**	**14 337 280**

Risk type – gross provisions by classes specified in section II of the appendix to the Act on insurance activity	31 December 2012	31 December 2011
Accident and sickness insurance (class 1 and 2)	376 993	347 348
TPL motor insurance (class 10)	9 856 594	9 169 307
Other motor insurance (class 3)	1 675 657	1 741 208
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	79 854	64 944
Insurance against fire and other damage to property (classes 8 and 9)	1 237 683	1 154 692
TPL insurance (classes 11, 12, 13)	1 761 286	1 457 244
Credit insurance and suretyship (classes 14, 15)	262 911	135 225
Assistance (class 18)	116 033	127 853
Legal protection (class 17)	2 242	2 314
Other (class 16)	99 647	137 145
Total	**15 468 900**	**14 337 280**

Risk type – provisions, net of reinsurance, by classes specified in section II of the appendix to the Act on insurance activity	31 December 2012	31 December 2011
Accident and sickness insurance (class 1 and 2)	383 725	347 165
TPL motor insurance (class 10)	9 476 320	8 774 938
Other motor insurance (class 3)	1 650 199	1 717 747
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	66 252	52 271
Insurance against fire and other damage to property (classes 8 and 9)	1 117 034	1 019 492
TPL insurance (classes 11, 12, 13)	1 705 981	1 439 116
Credit insurance and suretyship (classes 14, 15)	141 968	91 139
Assistance (class 18)	115 482	126 825
Legal protection (class 17)	2 242	2 314
Other (class 16)	60 363	65 560
Total	**14 719 566**	**13 636 567**

Technical provisions - property and personal insurance	31 December 2012	31 December 2011
Short-term	3 252 782	3 230 831
Long-term	12 216 118	11 106 449
Total	**15 468 900**	**14 337 280**

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.

(in PLN '000)

27.2 Technical provisions – life insurance

Technical provisions - life insurance	31 December 2012	31 December 2011
Provision for unearned premiums	93 449	96 333
Life insurance provision	15 675 243	14 595 112
Provisions for claims outstanding	516 356	612 122
Provisions for bonuses and rebates for the insured	1 415	960
Other technical provisions	531 617	581 155
Unit-linked reserve	3 113 798	2 299 767
Total	**19 931 878**	**18 185 449**

Technical provisions - life insurance	31 December 2012	31 December 2011
Short-term	5 095 997	4 368 662
Long-term	14 835 881	13 816 787
Total	**19 931 878**	**18 185 449**

The balance of technical provisions in life insurance was divided based on the value of discounted cash flows resulting from life insurance contracts expected within 12 months after the end of the reporting period and later.

27.2.1. Conversion of group employee insurance contracts

Since the beginning of 2002, PZU Życie has been converting group employee insurance contracts from those concluded for an unlimited period to those concluded for a limited period. The reduced liability period results in a decrease in liabilities related to the insurance coverage granted for the converted contracts and a decrease in the level of own funds required.

27.2.2. Old life insurance portfolio

In 1992, PZU transferred individual insurance policies (marriage and life) and annuity contracts (the so called "old portfolio") to PZU Życie.

In the hyperinflationary period of the 1980's, 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 with respect to all claims paid being currently paid and they are planned for the years to come. Some of the insured whose claims were revalued started to take legal action against PZU Życie with the objective to obtain higher claims.

The total value of provisions with respect to the old portfolio is presented below:

	31 December 2012	31 December 2011
Life insurance provisions	501 766	486 539
Other technical provisions	215 735	222 814
IBNR and RBNP* provision	4 579	6 365
Total provisions for the old portfolio	**722 080**	**715 718**

* - IBNR – Incurred But Not Reported
- RBNP – Reported But Not Paid

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.

(in PLN '000)

28. Investment contracts

Investment contracts – carrying amount	31 December 2012	31 December 2011
Investment contracts with guaranteed and fixed terms and conditions	1 297 224	2 330 870
- measured at amortized cost	1 297 224	2 330 870
Unit linked investment contracts	1 001 923	1 140 902
Total	**2 299 147**	**3 471 772**

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.

Investment contracts (short-term)	31 December 2012	31 December 2011
Investment contracts with guaranteed and fixed terms and conditions	891 627	2 330 870
Unit-linked investment contracts	1 001 923	1 140 902
Total	**1 893 550**	**3 471 772**

As unit-linked contracts may be terminated by customers, they have been classified as short-term liabilities. The value of short-term investment contracts with guaranteed and fixed terms and conditions has been determined on the basis of contractual terms.

29. 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.

Provisions for employee benefits	31 December 2012	31 December 2011
Post-employment benefits	**28 605**	**108 661**
- defined benefit plans	28 605	108 661
- provisions for retirement severance pay	12 145	93 832
- provisions for death benefits	16 460	14 829
Other long-term employee benefits	**32 044**	**146 915**
- provisions for jubilee bonuses	1 191	115 393
- other	30 853	31 522
Total	**60 649**	**255 576**

As a result of termination of Collective Labor Agreements in PZU and PZU Życie on 28 February 2012, as described in point 57.6:

- Retirement benefits were reduced to a level determined in the Labor Code, i.e. a one-monthly salary. Internal regulations adopted by the PZU Group companies with their registered offices in Poland had granted the aforementioned entitlements for employees whose length of service at the PZU Group companies exceeded 10 years (up to 6 times an employee's monthly salary, depending on the length of service).
- Jubilee awards were discontinued and the result of the release of the provision in the amount of PLN 113,162 thousand is included in other operating revenue.

(in PLN '000)

Provisions for employee benefits	**31 December 2012**	**31 December 2011**
Short-term	2 605	13 448
Long-term	58 044	242 128
Total	**60 649**	**255 576**

Revenue and expenses recognized in the income statement and related to provisions for employee benefits	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Post-employment benefits	67 043	(12 397)
- defined benefit plans	67 043	(12 397)
- provisions for retirement severance pay	68 770	(12 284)
- provisions for death benefits	(1 727)	(113)
Other long-term employee benefits	109 662	3 509
- provisions for jubilee bonuses	109 516	3 231
- other	146	278
Revenue and expenses recognized in the income statement and related to provisions for employee benefits total	**176 705**	**(8 888)**

29.1 Provisions for retirement severance pay

Change in the balance of provision for retirement severance pay	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Opening balance	93 832	93 252
Cost disclosed in the income statement	(68 770)	12 284
Change in provisions due to unit reorganization	-	290
Benefits paid	(12 917)	(11 994)
Closing balance	**12 145**	**93 832**

Revenue and expenses recognized in the income statement and related to provision for retirement severance pay	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Current service cost	(3 113)	(8 436)
Interest expenses	(1 974)	(2 657)
Actuarial (gains) and losses recognized in the current period	9 632	(1 191)
Past service cost	64 225	-
Total revenue and expenses recognized in the income statement and related to provision for retirement severance pay, including in the following items:	**68 770**	**(12 284)**
Claims	1 233	(3 186)
Claims and change in measurement of investment contracts	-	7
Acquisition costs	1 267	(3 890)
Administrative expenses	1 960	(5 132)
Other operating income	63 865	-
Other operating expenses	445	(83)

29.2 Provisions for death benefits

Change in the balance of provision for death benefits	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Opening balance	14 829	14 805
Cost disclosed in the income statement	1 727	113
Benefits paid	(96)	(89)
Closing balance	**16 460**	**14 829**

Pursuant to the Labor Code, in case of an employee's death during the term of the employment contract or during the period of entitlement to a disability allowance due to sickness, the employee's family is entitled to a death benefit paid by the employer and conditional on the length of service at the company, in the amount of 1 to 6-month pay

(in PLN '000)

Revenue and expenses recognized in the income statement and related to provision for death benefits	1 January - 31 December 2012	1 January - 31 December 2011
Current service cost	(1 392)	(1 345)
Interest expenses	(268)	(390)
Actuarial (gains) and losses recognized in the current period	(53)	1 622
Past service cost	(14)	-
Total revenue and expenses recognized in the income statement and related to provision for death benefits, including in the following items:	**(1 727)**	**(113)**
Claims	-	(90)
Claims and change in measurement of investment contracts	-	1
Acquisition costs	(4)	-
Administrative expenses	(1 577)	71
Other operating expenses	(146)	(95)

29.3 Key actuarial assumptions made for calculation of the provision for retirement severance pay and death benefits

Key actuarial assumptions made for calculation of the provision for retirement severance pay and death benefits	31 December 2012	31 December 2011
Discount rates /1	1,0% - 5,00%	1,5% - 5,86%
Forecast pay rise rates /1	0,5% - 3,0%	0,0% - 4,5%
Mortality rate /2	PLET	PLET
Employee turnover ratio /3	proper for the entity	proper for the entity
Disability rate (entitlement to disability pension) /4	30% - 60% PLET	30% - 60% PLET

/1 For certain PZU Group companies, discount rates at the level of 1.5% are adopted (1% as at 31 December 2010). In such case, the adopted discount rate includes the forecast pay rise rate (consequently presented at the level of 0.0% in the above table).
/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.
/3 Employee turnover ratios have 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 is adopted as a relevant percentage of the above mortality rate. Some PZU Group companies do not take the aforementioned rate into account.

30. Other provisions

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**

(in PLN '000)

Changes in other provisions in the year ended 31 December 2011	Opening balance	Increases	Application	Release	Change in the consolidati on scope	Closing balance
Provision for restructuring expenses	75 253	96 842	(58 169)	(970)	-	112 956
Provisions created for potential liabilities relating to CLSiOR investments	916	-	-	-	-	916
Provision for disputed claims and potential liabilities under insurance contracts	4 461	3 881	(1 820)	(2 503)	-	4 019
Provision for the Office of Competition and Consumer Protection penalties	69 143	67 892	-	-	-	137 035
Provision for exit costs of the GraphTalk project	49 396	953	-	-	-	50 349
Provision for PTE's reimbursement of undue fees to the Social Insurance Institution	9 532	766	(1 372)	(831)	-	8 095
Other	3 858	4 835	-	(2 046)	2 046	8 693
Other provisions total	**212 559**	**175 169**	**(61 361)**	**(6 350)**	**2 046**	**322 063**

Other provisions	31 December 2012	31 December 2011
Short-term	252 310	228 918
Long-term	15 146	93 145
Other provisions total	**267 456**	**322 063**

Position „Provision for the Office of Competition and Consumer Protection penalties" are described in point **Błąd! Nie można odnaleźć źródła odwołania.** i **Błąd! Nie można odnaleźć źródła odwołania.**.

Provisions for restructuring expenses are described in point 57.7.

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 point 54.4.

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 34 No. 2010 item 189 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 – 2011 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.

(in PLN '000)

31. Deferred income tax liability

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 comprehe-nsive 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 PGK is described in point 18.

Changes in deferred tax liability in the year ended 31 December 2011	Opening balance	Changes recognized in the financial profit/loss	Changes recognized in other comprehe-nsive income	Change in the consolidation scope	Closing balance
Financial instruments	319 118	(216 529)	(36 043)	-	66 546
Recourse receivables	(8 319)	1 337	-	-	(6 982)
Real property	6 040	(5 951)	6 218	6 253	12 560
Deferred acquisition costs	97 014	8 985	-	-	105 999
Deferred acquisition costs relating to PZU OPF	(8 823)	7 906	-	-	(917)
Accrued revenue and reinsurance costs	17 786	(28 557)	-	-	(10 771)
Provisions for jubilee bonuses, retirement severance pay etc.	(50 956)	787	-	-	(50 169)
Provision for bonuses and appropriation to the bonus fund	(30 347)	(10 512)	-	-	(40 859)
Provisions for employee vacation	(4 783)	(217)	-	-	(5 000)
Outstanding liabilities to natural persons (under personal service contracts, agency contracts etc.)	(35 399)	(403)	-	-	(35 802)
Other provisions and accruals	(76 342)	(19 569)	-	443	(95 468)
Prevention Fund	19 450	(6 347)	-	-	13 103
Equalization reserve	101 597	10 275	-	-	111 872
Life insurance technical provisions	80 026	(3 592)	-	-	76 434
Provision for restructuring expenses	(14 299)	(7 163)	-	-	(21 462)
Other differences	(6 807)	(2 561)	-	-	(9 368)
Total deferred tax liability	**404 956**	**(272 111)**	**(29 825)**	**6 696**	**109 716**

(in PLN '000)

32. Current income tax liabilities

As at 31 December 2012 and 31 December 2011 all current income tax liabilities were short-term.

33. Other liabilities

Inne zobowiązania - wartość bilansowa	31 December 2012	31 December 2011
Liabilities due to direct insurance	649 023	528 648
Liabilities due to reinsurance	54 470	49 450
Liabilities to credit institutions	1 006 245	758 951
Other liabilities	710 417	452 902
Other liabilities total	**2 420 155**	**1 789 951**

As at 31 December 2011 and 31 December 2010 the fair value of other liabilities did not differ substantially from their carrying amount.

Liabilities by contractual maturity	31 December 2012	31 December 2011
Up to 3 months	1 597 729	1 682 005
Over 3 months and up to 1 year	813 377	100 971
Over 1 year and up to 5 years	6 760	4 626
Over 5 years	2 289	2 349
Total liabilities by contractual maturity	**2 420 155**	**1 789 951**

(in PLN '000)

33.1 Liabilities due to direct insurance

Liabilities due to direct insurance	31 December 2012	31 December 2011
Liabilities to policyholders	352 144	300 933
Liabilities to insurance intermediaries	149 608	86 886
Other insurance liabilities	147 271	140 829
Total liabilities due to direct insurance	**649 023**	**528 648**

33.2 Liabilities due to reinsurance

Liabilities due to reinsurance	31 December 2012	31 December 2011
Liabilities due to inward reinsurance	458	1 896
Liabilities due to outward reinsurance	54 012	47 554
Total liabilities due to reinsurance	**54 470**	**49 450**

33.3 Liabilities due to credit institutions

The major element of liabilities towards credit institutions are liabilities due to contingent sell-buy-back transactions of PLN 839,969 thousand (31 December 2011: PLN 758,929 thousand).

The transactions were secured with treasury bonds, described in point 52.1.

All sell-buy-back transactions as at 31 December 2012 were settled on 2, 4 and 7 January 2013. All sell-buy-back transactions as at 31 December 2011 were settled on 2 and 5 January 2012.

The basic characteristic of sell-buy-back transactions as at 31 December 2012 is presented below.

Maturity date	Carrying amount	Currency	Carrying amount of collateral	Collateral	Quantity
2 January 2013	41 968	PLN	41 972	OK0714	44 000
As above	70 156	PLN	70 166	PS0414	65 400
As above	22 592	PLN	22 568	PS1016	21 200
As above	106 818	PLN	106 958	WS0922	90 000
As above	350 105	PLN	350 352	WZ0117	340 700
4 January 2013	138 662	PLN	138 832	DS1017	126 000
As above	17 814	PLN	17 826	WS0922	15 000
7 January 2013	26 715	PLN	26 709	OK0714	28 000
As above	16 387	PLN	16 387	PS0416	15 000
As above	48 752	PLN	48 725	WS0922	41 000
Total	**839 969**		**840 495**		**786 300**

(in PLN '000)

33.4 Other liabilities

Other liabilities	31 December 2012	31 December 2011
Liabilities to the State Budget, other than corporate income tax (CIT)	19 407	18 016
Regulatory liabilities – to the Social Insurance Institution, PFRON, the Company's Social Benefits Fund etc.	21 234	23 564
To employees	2 995	6 195
Insurance Guarantee Fund	7 373	7 541
Due to acquired securities and collateral deposits	438 840	139 292
Liabilities to the Shareholders	3 453	3 650
Trade payables to suppliers	72 092	124 529
Estimated non-insurance liabilities	108 694	80 551
Other	36 329	49 564
Other liabilities total	**710 417**	**452 902**

33.5 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 2012	31 December 2011
Up to 1 year	35 885	75 014
Over 1 year and up to 5 years	54 199	106 725
Over 5 years	11 577	18 562
Total liabilities due to minimum operating lease payments	**101 661**	**200 301**

Opłaty z tytułu leasingu operacyjnego wykazane w rachunku zysków i strat danego okresu	1 January - 31 December 2012	1 January - 31 December 2011
Minimum operating lease payments	72 700	64 236
Sublease payments	(68)	-
Total	**72 632**	**64 236**

34. Accruals and deferred income

Accruals and deferred income	31 December 2012	31 December 2011
Accrued expenses, including:	**672 550**	**669 048**
- long-term	-	**-**
- short-term	672 550	669 048
- accrued costs of agency commissions	194 341	195 912
- accrued payroll costs	128 296	121 803
- accrued costs and revenue from reinsurance	172 246	153 618
- provision for paid vacation	46 658	40 301
- accrued employee bonuses	102 403	134 836
- other	28 606	22 578
Deferred income, including:	**10 420**	**17 909**
- long-term	25	7 001
- short-term	10 395	10 908
- deferred reinsurance commission	10 395	9 688
- other	-	1 220
Total accruals and deferred income	**682 970**	**686 957**

(in PLN '000)

As of 31 December 2012 bonuses for the results achieved in 2012 were presented in the position „accrued bonuses for employees" in the amount PLN 92,000 thousand (31 December 2011: PLN 94,875 thousand bonuses for the 2011 result).

35. Gross written premiums

Gross written premiums	1 January - 31 December 2012	1 January - 31 December 2011
Gross written premiums – property and personal insurance	8 789 154	8 527 492
In direct insurance	8 742 890	8 491 093
In indirect insurance	46 264	36 399
Gross written premiums – life insurance	7 453 977	6 751 770
Individual premiums	2 962 090	2 401 961
Z ubezpieczeń bezpośrednich	2 962 090	2 401 961
Group insurance premiums	4 491 887	4 349 809
In direct insurance	4 491 887	4 349 809
Gross written premiums total	**16 243 131**	**15 279 262**

In 2012 and 2011, PZU Życie did not carry out activities involving inward reinsurance

Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2012	1 January - 31 December 2011
Accident and sickness insurance (class 1 and 2)	549 974	502 733
TPL motor insurance (class 10)	3 060 007	2 968 375
Other motor insurance (class 3)	2 231 466	2 358 893
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	58 749	48 629
Insurance against fire and other damage to property (classes 8, 9)	1 829 340	1 742 023
TPL insurance (classes 11, 12, 13)	677 873	532 538
Credit insurance and surety ship (classes 14, 15)	53 483	63 003
Assistance (class 18)	197 361	191 288
Legal protection (class 17)	800	822
Other (class 16)	83 837	82 789
Gross written premiums in direct property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**8 742 890**	**8 491 093**

Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	1 January - 31 December 2012	1 January - 31 December 2011
Accident and sickness insurance (class 1 and 2)	44	75
Other motor insurance (class 3)	(39)	952
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	2 511	2 005
Insurance against fire and other damage to property (classes 8, 9)	38 122	28 173
TPL insurance (classes 11, 12, 13)	837	4 549
Other (class 16)	4 789	645
Gross written premiums in indirect property and personal insurance (by classes specified in section II of the appendix to the Act on insurance activity)	**46 264**	**36 399**

(in PLN '000)

36. Revenue from commissions and fees

Revenue from commissions and fees	1 January - 31 December 2012	1 January - 31 December 2011
Pension insurance	**199 165**	**231 638**
Commission on handling fees	36 906	74 381
Commission on asset management for open pension fund	162 259	157 208
Commission on transfer payments	-	49
Investment contracts	**22 000**	**25 007**
Revenue from unit-linked investment contract fees	22 000	25 007
Other	**15 937**	**24 706**
Revenue and payments received from funds and investment fund management companies	15 937	24 706
Total revenue from commissions and fees	**237 102**	**281 351**

37. Net investment income

Net investment income	1 January - 31 December 2012	1 January - 31 December 2011
Interest income, including:	1 970 194	1 835 917
- financial assets available for sale	298 028	348 081
- financial assets held to maturity	1 206 223	1 231 247
- loans	463 221	253 022
- cash and cash equivalents	2 722	3 567
Dividend income, including:	155 721	122 148
- financial assets measured at fair value through profit or loss – classified as such upon initial recognition	145	263
- financial assets held for trading	119 817	79 742
- financial assets available for sale	35 759	42 143
Income from property investments	24 728	27 256
Exchange differences, including:	(35 452)	28 610
- financial assets held to maturity	(11 149)	20 722
- aktywa finansowe dostępne do sprzedaży	(4 516)	-
- loans	(14 843)	4 013
- receivables, including under insurance contracts	(4 357)	3 954
- cash and cash equivalents	(587)	(79)
Other, including:	(68 137)	(43 677)
- costs of investing activities	(56 102)	(23 824)
- investment property maintenance costs	(24 026)	(19 853)
- other	11 991	-
Total net investment income	**2 047 054**	**1 970 254**

(in PLN '000)

38. Net profit/loss on realization and impairment loss on investments

Net profit/loss on realization and impairment loss on investments	1 January - 31 December 2012	1 January - 31 December 2011
Net profit/loss on realization of investments	**592 899**	**(75 196)**
Financial assets measured at fair value through profit or loss – classified as such upon initial recognition, including:	184 906	36 166
- equity instruments	12 022	1 233
- debt securities	172 884	34 933
Financial assets held for trading, including:	131 588	(195 677)
- equity instruments	80 789	(216 333)
- debt securities	37 701	5 041
- derivatives	13 098	15 615
Financial assets available for sale, including:	425 942	143 122
- equity instruments	174 912	70 900
- debt securities	251 030	72 222
Financial assets held to maturity, including:	2 052	1 595
- debt securities held to maturity	2 052	1 595
Receivables, including under insurance contracts	(151 920)	(60 601)
Investment property	331	199
Impairment losses	**(71 631)**	**(112 051)**
Financial assets available for sale, including:	(14 915)	(16 352)
- equity instruments	(14 915)	(16 352)
Loans	-	(9 780)
Receivables, including under insurance contracts	(54 246)	(85 919)
Cash and cash equivalents	(2 470)	-
Total net profit/loss on realization and impairment loss on investments	**521 268**	**(187 247)**

39. 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 2012	1 January - 31 December 2011
Financial instruments measured at fair value through profit or loss – classified as such upon initial recognition, including:	483 812	213 273
- equity instruments	2 665	(37 945)
- debt securities	481 147	251 218
Financial instruments held for trading, including:	645 081	(400 101)
- equity instruments	434 775	(476 248)
- debt securities	194 157	102 494
- derivatives	16 149	(26 347)
Investment property	7 514	(2 353)
Net change in the fair value of assets and liabilities measured to fair value	**1 136 407**	**(189 181)**

(in PLN '000)

40. Other operating revenue

Other operating revenue	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Commission on claims handling services	7 953	7 503
Provisions released	7 991	6 350
Released impairment losses on non-financial assets	3 368	14 078
Disposal of property, plant and equipment and property, plant and equipment under construction	3 290	1 994
Recharged expenses	1 111	1 106
Reinsurers' commissions and share in reinsurers' profit	(19 155)	(15 408)
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 2012	27 253	-
Non insurance companies' revenues from sales of products, goods and services	261 202	281 109
Consolidation of the Armatura Group	-	118 916
Income from credit institutions	26 647	34 274
Interest from overdue payments in direct insurance nad outward reinsurance	15 691	9 028
Other	75 650	26 531
Total other operating revenue	**588 028**	**485 481**

The issues concerned with release of provisions for employee benefits (retirement severance pay and jubilee bonuses) are described in point 29 and 57.8.

41. Insurance claims

Insurance claims	**1 January - 31 December 2012**	**1 January - 31 December 2011**
Claims and change in technical provisions - property and personal insurance	5 776 295	5 651 114
Reinsurers' share in claims and change in technical provisions - property and personal insurance	(152 446)	(152 285)
Claims and change in technical provisions - life insurance	6 595 003	4 722 407
Reinsurers' share in claims and change in technical provisions - life insurance	(121)	(114)
Total insurance claims	**12 218 731**	**10 221 122**

(in PLN '000)

41.1 Property and personal insurance

Claims and change in provisions in property and personal insurance	1 January - 31 December 2012	1 January - 31 December 2011
Gross claims and change in provisions in property and personal insurance	**5 776 295**	**5 651 114**
Claims and claims handling expenses for the current period	3 186 582	3 278 826
Claims and claims handling expenses for previous periods	1 502 148	1 895 661
Change in provision for claims outstanding	1 087 565	476 627
Reinsurers' share in claims and change in provisions in property and personal insurance	**(152 446)**	**(152 285)**
Claims and claims handling expenses for the current period	(32 034)	(4 254)
Claims and claims handling expenses for previous periods	(95 721)	(310 594)
Change in provision for claims outstanding	(24 691)	162 563
Net claims and change in provisions in property and personal insurance	**5 623 849**	**5 498 829**
Claims and claims handling expenses for the current period	3 154 548	3 274 572
Claims and claims handling expenses for previous periods	1 406 427	1 585 067
Change in provision for claims outstanding	1 062 874	639 190

Change in technical provisions in property and personal insurance

Change in provision for unearned premium in property and personal insurance	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	4 411 652	(163 937)	4 247 715	4 183 127	(75 230)	4 107 897
Increase (decrease) in provisions for policies concluded in the current year	4 193 481	(152 296)	4 041 185	4 133 193	(130 081)	4 003 112
Increase (decrease) in provisions for policies concluded in previous years	(4 158 221)	124 662	(4 033 559)	(3 917 700)	42 059	(3 875 641)
Exchange differences during the period	(11 396)	706	(10 690)	13 032	(685)	12 347
Closing balance	**4 435 516**	**(190 865)**	**4 244 651**	**4 411 652**	**(163 937)**	**4 247 715**

Change in provision for unexpired risk in property and personal insurance	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance	13 411	(167)	13 244	31 917	(89)	31 828
Increase (decrease) in provisions for policies concluded in the current year	2 330	157	2 487	4 064	89	4 153
Increase (decrease) in provisions for policies concluded in previous years	(6 609)	(5)	(6 614)	(24 044)	(146)	(24 190)
Exchange differences during the period	(930)	10	(920)	1 474	(21)	1 453
Closing balance	**8 202**	**(5)**	**8 197**	**13 411**	**(167)**	**13 244**

(in PLN '000)

Change in provisions for claims outstanding in property and personal insurance	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers' share	net of reinsurance
Opening balance, including:	4 817 359	(283 085)	4 534 274	4 548 445	(336 023)	4 212 422
- for claims reported	1 824 201	(233 774)	1 590 427	1 919 232	(270 855)	1 648 377
- for claims incurred but not reported (IBNR)	2 171 324	(37 503)	2 133 821	1 921 859	(52 650)	1 869 209
- for claims handling expenses	821 834	(11 808)	810 026	707 354	(12 518)	694 836
Paid claims concerning losses incurred in previous years, including	(1 479 312)	90 206	(1 389 106)	(1 836 072)	305 640	(1 530 432)
- claims paid	(1 264 643)	87 450	(1 177 193)	(1 616 984)	303 487	(1 313 497)
- claims handling expenses	(214 669)	2 756	(211 913)	(219 088)	2 153	(216 935)
Increase (decrease) in provisions, including:	2 036 969	(108 895)	1 928 074	2 088 420	(242 031)	1 846 389
- losses incurred in the current year	2 078 170	(111 127)	1 967 043	1 927 247	(31 017)	1 896 230
- losses incurred in the previous years	(41 201)	2 232	(38 969)	161 173	(211 014)	(49 841)
Other changes	-	(5 049)	(5 049)	-	(6 861)	(6 861)
Exchange differences during the period	(12 927)	2 772	(10 155)	16 566	(3 810)	12 756
Closing balance	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

Change in provision for capitalized value of annuity claims – property and personal insurance	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers ' share	net of reinsurance
Opening balance	5 088 626	(253 524)	4 835 102	4 862 552	(360 508)	4 502 044
Paid claims concerning losses incurred in previous years	(174 797)	7 896	(166 901)	(161 033)	9 309	(151 724)
Increase (decrease) in provisions for losses incurred in the previous years	221 010	11 333	232 343	169 897	106 606	276 503
Adjustments resulting from revision of technical rates	244 950	(13 889)	231 061	-	-	-
Increase in provisions for losses incurred in the current year	265 864	-	265 864	234 642	-	234 642
Other changes	14 628	(6 229)	8 399	(17 432)	(8 931)	(26 363)
Closing balance	**5 660 281**	**(254 413)**	**5 405 868**	**5 088 626**	**(253 524)**	**4 835 102**

41.2 Life insurance

Insurance claims in life insurance	1 January - 31 December 2012	1 January - 31 December 2011
Resulting from maturity	409 493	481 028
Resulting from claims paid in case of death	2 606 907	2 513 446
Resulting from morbidity	614 392	665 586
Resulting from resignation from the insurance contract	240 989	214 505
Resulting from disability and entitlement to a disability pension	5 694	6 217
Resulting from annuity claims	42 746	42 589
Resulting from childbirth	317 853	308 326
Resulting from hospital treatment	274 837	256 791
Resulting from a refund of accumulated cash and transfer payments	191 436	114 227
Other	141 080	117 704
Total insurance claims in life insurance	**4 845 427**	**4 720 419**

(in PLN '000)

All claims for 2012 and 2011 related to direct insurance.

Change in technical provisions in life insurance

Change in provisions for unearned premium in life insurance	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers ' share	net of reinsurance
Opening balance	96 333	-	96 333	100 631	-	100 631
Increases	93 449	1 488	94 937	96 333	1 490	97 823
Decreases	(96 333)	(1 488)	(97 821)	(100 631)	(1 490)	(102 121)
Closing balance	**93 449**	**-**	**93 449**	**96 333**	**-**	**96 333**

Change in provision in life insurance - insurance contacts with no DPF	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsure rs' share	net of reinsurance
Opening balance	10 923 226	-	10 923 226	10 848 252	-	10 848 252
Net premiums received	1 414 039	-	1 414 039	1 463 774	-	1 463 774
Technical interest rate for the provisions	368 948	-	368 948	362 217	-	362 217
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(2 007 403)	-	(2 007 403)	(2 350 096)	-	(2 350 096)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	429 449	-	429 449	599 079	-	599 079
Adjustments resulting from revision of technical rates	798 628	-	798 628	-	-	-
Closing balance	**11 926 887**	**-**	**11 926 887**	**10 923 226**	**-**	**10 923 226**

Change in provisions in life insurance, provisions for low interest rates and provisions for revaluation and trials - insurance and investment contracts with DPF	1 January - 31 December 2012			1 January - 31 December 2011		
	gross	reinsurers' share	net of reinsurance	gross	reinsurers ' share	net of reinsurance
Opening balance	4 232 448	-	4 232 448	4 317 278	-	4 317 278
Net premiums received	368 056	-	368 056	365 329	-	365 329
Technical interest rate for the provisions	178 037	-	178 037	167 382	-	167 382
Increase in provisions for profit sharing	41 054	-	41 054	17 467	-	17 467
Released provisions due to maturity and survival, mortality, resignation/redemption and other fortuitous events	(596 842)	-	(596 842)	(671 416)	-	(671 416)
Impact of the sale of new policies and renegotiation of contracts existing at the beginning of the period	(7 558)	-	(7 558)	(7 797)	-	(7 797)
Changes in assumptions	41 653	-	41 653	44 205	-	44 205
Closing balance	**4 256 848**	**-**	**4 256 848**	**4 232 448**	**-**	**4 232 448**

(in PLN '000)

Change in provisions in life insurance - unit-linked contracts	**1 January - 31 December 2012**			**1 January - 31 December 2011**		
	gross	**reinsurers' share**	**net of reinsurance**	**gross**	**reinsurers' share**	**net of reinsurance**
Net assets of the fund at the beginning of the period	2 299 767	-	2 299 767	2 296 089	-	2 296 089
Increases in the fund due to premiums	894 952	-	894 952	404 404	-	404 404
Payments deducted from the fund for risk, administration and other	(46 716)	-	(46 716)	(37 973)	-	(37 973)
Revenue from the fund's investments	348 852	-	348 852	(80 939)	-	(80 939)
Decreases in the fund due to claims, redemptions, etc.	(350 060)	-	(350 060)	(277 226)	-	(277 226)
Other decreases	(63 147)	-	(63 147)	(21 752)	-	(21 752)
Other increases	30 150	-	30 150	17 164	-	17 164
Net assets of the fund at the end of the period	**3 113 798**	**-**	**3 113 798**	**2 299 767**	**-**	**2 299 767**

Change in provisions in life insurance - other insurance contracts	**1 January - 31 December 2012**			**1 January - 31 December 2011**		
	gross	**reinsurers' share**	**net of reinsurance**	**gross**	**reinsurers' share**	**net of reinsurance**
Opening balance	21 553	-	21 553	21 333	-	21 333
Increases	2 987	-	2 987	220	-	220
Decreases	-	-	-	-	-	-
Closing balance	**24 540**	**-**	**24 540**	**21 553**	**-**	**21 553**

Change in provisions for claims	**1 January - 31 December 2012**			**1 January - 31 December 2011**		
	gross	**reinsurers' share**	**net of reinsurance**	**gross**	**reinsurers' share**	**net of reinsurance**
RBNP at the beginning of the period	125 937	-	125 937	108 425	-	108 425
IBNR at the beginning of the period	486 185	-	486 185	500 210	-	500 210
Total RBNP and IBNR at the beginning of the period	**612 122**	**-**	**612 122**	**608 635**	**-**	**608 635**
Provisions for claims applied during the year	(612 122)	-	(612 122)	(608 635)	-	(608 635)
Provisions for claims created during the year	516 356	-	516 356	612 122	-	612 122
Total RBNP and IBNR at the end of the period	**516 356**	**-**	**516 356**	**612 122**	**-**	**612 122**
RBNP at the end of the period	115 394	-	115 394	125 937	-	125 937
IBNR at the end of the period	400 962	-	400 962	486 185	-	486 185

(in PLN '000)

41.3 Claims handling costs

Claims handling costs, by type	1 January - 31 December 2012	1 January - 31 December 2011
Consumption of materials and energy	16 562	16 430
External services	208 681	242 451
Taxes and charges	12 794	13 924
Employee expenses	318 090	335 605
Depreciation of property, plant and equipment	15 157	15 895
Amortization of intangible assets	17 764	12 583
Other (by type), including:	68 906	55 129
- Default interest, penalties and damages	59 945	41 148
- other	8 961	13 981
Claims handling costs total	**657 954**	**692 017**

42. Benefits and change in measurement of investment contracts

Benefits and change in measurement of investment contracts	1 January - 31 December 2012	1 January - 31 December 2011
Resulting from investment contracts with guaranteed and fixed terms and conditions	85 140	112 087
- interest expenses included in the effective interest rate	85 140	112 087
Resulting from unit-linked investment contracts	91 640	(144 599)
Benefits and change in measurement of investment contracts total	**176 780**	**(32 512)**

43. Acquisition costs

Acquisition costs, by type	1 January - 31 December 2012	1 January - 31 December 2011
Consumption of materials and energy	26 021	27 291
External services	93 203	109 885
Taxes and charges	6 213	4 885
Employee expenses	417 671	469 445
Depreciation of property, plant and equipment	15 473	18 009
Amortization of intangible assets	16 843	8 041
Other (by type), including:	1 424 927	1 324 430
- direct business commission	1 374 805	1 300 211
- advertisement	44 362	42 616
- change in capitalized acquisition costs	(6 009)	(28 023)
- indirect business commission	4 493	4 463
- other	7 276	5 163
Total acquisition costs	**2 000 351**	**1 961 986**

(in PLN '000)

44. Administrative expenses

Administrative expenses, by type	1 January - 31 December 2012	1 January - 31 December 2011
Consumption of materials and energy	47 333	38 461
External services	209 587	220 439
Taxes and charges	36 365	52 101
Employee expenses	734 357	686 620
Depreciation of property, plant and equipment	49 719	61 375
Amortization of intangible assets	39 283	35 657
Remuneration of individuals maintaining group insurance with employers	217 510	212 274
Other (by type), including:	106 147	76 970
- advertisement	81 608	60 912
- other	24 539	16 058
Total administrative expenses	**1 440 301**	**1 383 897**

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 articles of association.

"Taxes and charges" in administrative expenses of PTE PZU include:

- Payments for the main and additional part of the Guarantee Fund;
- Payments to the National Depository for Securities (KDPW) due to all expenses incurred in connection with processing of transfer payments;
- Payments to the Social Insurance Institution related to costs of premium collection and recovery.

45. Employee expenses

Employee expenses	1 January - 31 December 2012	1 January - 31 December 2011
Payroll	1 194 070	1 271 154
Defined contributions plans; including	250 008	261 391
- overheads	189 044	194 702
- third pillar pension insurance, including costs of premium to PPE incurred in the period	60 964	66 689
Other	67 721	14 184
Total employee expenses	**1 511 799**	**1 546 729**

As at 31 December 2012, 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.

(in PLN '000)

46. Other operating expenses

Other operating expenses	1 January - 31 December 2012	1 January - 31 December 2011
Costs of claims handling services	179	356
Provisions created	8 909	10 435
Impairment of non-financial assets	6 696	1 196
Net value of sold property, plant and equipment and property, plant and equipment under construction	1 850	594
Default interest, penalties and damages	991	1 221
Donations	51 067	11 443
Insurance Guarantee Fund	29 560	28 939
National Headquarters of the State Fire Service and Volunteer Fire Service Association	28 617	30 593
Compulsory payments to the insurance market authorities	52 995	49 877
Rechargeable expenses	7 861	6 085
Expenses due to prevention activities	18 697	16 968
TFI expenses	2 679	7 031
Creating provision for the Office of Competition and Consumer Protection	1 275	67 892
Recognized provision for restructuring and reorganization expenses	48 353	96 842
Non insurance companies' operating costs	273 737	285 218
Other	85 272	145 276
Total other operating expenses	**618 738**	**759 966**

Item "Recognized provision for restructuring and reorganization expenses" regards the employment optimization in head offices of PZU and PZU Życie as described in point 57.9.

47. Financial expenses

Financial expenses	1 January - 31 December 2012	1 January - 31 December 2011
Interest, including:	41 818	46 067
- loans	34 939	40 162
- credit facilities	6 879	5 905
Other, including:	(328)	3 085
- exchange differences	(374)	2 536
- other	46	549
Total financial expenses	**41 490**	**49 152**

Loans interest mainly contains interest relating to sell-buy-back transactions.

48. Exchange differences

Exchange differences recognized in the consolidated income statement	1 January - 31 December 2012	1 January - 31 December 2011
Financial assets	(30 508)	24 735
- financial assets held to maturity	(11 149)	20 722
- financial assets available for sale	(4 516)	-
- loans	(14 843)	4 013
Receivables, including under insurance contracts	(4 357)	3 954
Cash and cash equivalents	(587)	(79)
Other liabilities	(8)	5
Total exchange differences recognized in the consolidated income statement	**(35 460)**	**28 615**

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.

(in PLN '000)

49. Income tax

Income tax	1 January - 31 December 2012	1 January - 31 December 2011
Gross profit (loss) (consolidated)	4 038 708	2 907 575
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	767 355	552 439
Differences between the income tax calculated above and the income tax recognized in the income statement:	17 527	11 189
- tax losses	(3 066)	(101)
- fines, contractual penalties	796	564
- dividends	(19 806)	6 374
- measurement of financial assets	7 628	(11 715)
- created/released write-downs on receivables not classified as tax deductible expenses	30 628	(11 477)
- other created/ released provisions and write-downs on other assets not classified as tax deductible expenses	(9 115)	59 605
- unrealized gains and losses on outward reinsurance	(1 266)	(19 437)
- tax on insurance activities in Ukraine	4 673	5 950
- amortization/depreciation	602	608
- other tax increase, cancellation, exemption, deduction and reduction	6 453	(19 182)
Income tax recognized in the profit or loss	**784 882**	**563 628**

Total current and deferred tax	1 January - 31 December 2012	1 January - 31 December 2011
1. Recognized in profit or loss, including:	**784 882**	**563 628**
- current tax	568 541	826 397
- deferred tax	216 341	(262 769)
2. Recognized in comprehensive income, including:	**26 002**	**(29 753)**
- current tax	-	-
- deferred tax	26 002	(29 753)

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.

50. Income tax presented in other comprehensive income

Income tax presented in other comprehensive income	1 January - 31 December 2012	1 January - 31 December 2011
Other comprehensive income	88 660	(116 887)
Income tax	26 002	(29 753)
Financial assets available for sale	22 051	(36 166)
Real property reclassified from property, plant and equipment to investment property	3 951	6 413
Other comprehensive income gross	**114 662**	**(146 640)**

51. Revenue from the exchange of goods and services

In 2012 and 2011, the PZU Group did not recognized any revenue from the exchange of goods and services.

(in PLN '000)

52. Assets used as security of receivables, liabilities and contingent liabilities

52.1 Financial assets used as security of liabilities

As at 31 December 2012 the treasury bonds with the carrying amount of PLN 840,495 (31 December 2011: PLN 758,560 thousand) thousand held by the companies in the PZU Group were used as a collateral of the sell-buy-back transactions described in point 33.3.

52.2 Financial assets used as collateral for originated loans

Na dzień 31 grudnia 2012 roku i na dzień 31 grudnia 2011 roku PZU i PZU Życie były stronami transakcji typu *buy-sell-back*, a także udzielały pożyczek zabezpieczonych aktywami finansowymi.

As at 31 December 2012 and 31 December 2011, 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 point 13.4.

52.3 Property, plant and equipment

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.

As at 31 December 2011 the consolidated companies of the PZU Group had no property, plant and equipment used as security of liabilities.

53. Contingent assets and liabilities

Contingent assets and liabilities	31 December 2012	31 December 2011
Contingent assets, including:	17 746	17 746
- guarantees and sureties received	17 746	17 746
Contingent liabilities	210 459	171 030
- guarantees and sureties issued	6 790	4 873
- disputable claims related to insurance	69 651	53 937
- other disputable claims	53 541	32 029
- other	80 477*	80 191*

* including PLN 49.264 thousand (31 December: PLN 49.264 thousand) of contingent liabilities arising from credit agreements concluded by Armatura Group and PLN 30.000 thousand (31 December 2011: 30.000 thousand) contingent liabilities arisen from real property sale by Armatura Group

53.1 Credit facility/loan collateral or guarantees given by PZU or its subsidiaries

In 2012, 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.

53.2 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.

54. 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 2011and 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 2012 the total value of all 40.289 cases held by courts, bodies competent to hear arbitration proceedings or public authority bodies involving the PZU Group companies was PLN 2,129,495 thousand. The amount includes PLN 1,638,890 thousand of liabilities and PLN 490,605 thousand of receivables of the PZU Group companies, which constituted 12.18% and 3.65% of PZU equity calculated in line with PAS, respectively.

54.1 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. On 7 February 2013, the Supreme Court decided to accept the appeal for examination.

The session of the Supreme Court where the cassation appeal of PZU will be examined will take place on 27 March 2013.

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 GMS 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. The first hearing was planned for 12 March 2013, which finally was postponed to 5 April 2013. PZU responded to the complaint requesting its complete dismissal. Should argumentation of PZU be ignored, a decision may be issued cancelling the resolution objected against.

As at the balance sheet date of 31 December 2012, 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.

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

54.2.1. 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. On 5 July 2012 the Court of Appeals in Warsaw dismissed the decision of the Court of Competition and Consumer Protection dated 14 November 2011 until the case is re-examined. On 18 January 2013, the Court of Competition and Consumer Protection overruled the whole decision of the Chairman of the 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.

Regardless of the appeal measures, PZU recognized a provision for the fine totaling – as at 31 December 2012 and as at 31 December 2011 – PLN 14,792 thousand.

54.2.2. Fines imposed in 2011

54.2.2.1. Reimbursement of the costs of rental a replacement car

In a decision of 18 December 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.

Regardless of the appeal measures, PZU recognized a provision for the fine totalling – as at 31 December 2012 and as at 31 December 2011 – PLN 11,287 thousand.

54.2.2.2. 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 receives an answer from the Chairman of the Office of Competition and Consumer Protection to PZU's appeal, to which PZU replied on 5 November 2012.

Regardless of the appeal measures, PZU recognized a provision for the fine totalling – as at 31 December 2012 and as at 31 December 2011 – PLN 56,605 thousand.

54.3 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 UOKiK 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 proceedings, the President of UOKiK 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 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 UOKiK. On 31 May 2011 the Court issued a ruling whereby it dismissed the appeal of PZU Życie on the grounds that the decision of the President of UOKiK 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.

The dates of the hearings before the Court of Appeals were set at 21 August 2012 and 7 February 2013 and were postponed twice. During the proceedings on 7 February 2013 a new date for the next hearing was not determined.

As of 31 December 2012 and 31 December 2011, PZU Życie disclosed in its financial statements a provision of PLN 50,384 thousand for the penalty imposed.

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

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 further amendments in claim, CSC is demanding the total of PLN 35,663 thousand including statutory interest from the date of filing a claim by CSC (i.e. 31 March 2010) until the date of the hearing.

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 requested that the claim of PZU Życie be dismissed in whole, indicating the absence of evidence to accept it.

On 31 January 2012, a hearing took place before the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, and on 19 June 2012, the Court of Arbitration closed the case. The case was reopened when CSC submitted a court letter with anther modification to the legal action.

On 18 December 2012, the Court of Arbitration of the Polish Chamber of Commerce in Warsaw passed a ruling (the "Decision") awarded damages to be paid by PZU to CSC of PLN 17,193 thousand and dismissed the main claim regarding payment of EUR 8,437 thousand with statutory interest calculated from the date of making the claim. The Court of Arbitration also dismissed also the remaining part of the main claim and the counterclaim and ordered PZU to pay PLN 199 thousand to CSC as court fees.

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.

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.

In a letter of 1 February 2013, PZU Życie informed the District Court in Warsaw about the complaint regarding cancellation and filed for postponement of the case until after the appeal has been considered.

54.5 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 (including amounts payable in future). The amounts payable in future mean potential liabilities of PZU related to performance of the insurance guarantees not performed yet (arising from the existing payment reminders issued by beneficiaries of the insurance guarantees or from the guarantees themselves, if the deadline for their beneficiaries to submit a reminder has not passed yet).

PZU submitted the following claims:

- In relation to the bankruptcy estate of PBG: the total of PLN 105.428 thousand , out of which PLN 90,745 thousand of future liabilities;
- In relation to the bankruptcy estate of Hydrobudowa: the total of PLN 100,996 thousand , out of which PLN 86,443 thousand of future liabilities.

Later, following payments made in relation to subsequent guarantee contracts granted to Hydrobudowa, PZU submitted additional claims. The total amount of claims to the bankruptcy estate of both companies did not change, though, since subsequent claims only modified the amount of debt classified by PZU as future liabilities in initial claims. As at the date of signing the separate financial statements by PZU, the claims amounted to:

- In relation to the bankruptcy estate of PBG: the total of PLN 105,428 thousand , out of which PLN 73,461 thousand of future liabilities;
- In relation to the bankruptcy estate of Hydrobudowa: the total of PLN 100,996 thousand, out of which PLN 69,159 thousand of future liabilities.

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.

54.6 Dispute with PBG regarding claims of PGNiG arising from contract guarantees

On 4 February 2013 a complaint was lodged against PZU to District Court in Poznań, with the disputed amount of PLN 66,699 thousand. The complaint regards determination, not payment, and its authors: PBG, Tecnimont S.p.A. with registered office in Milan, Societe Francaise d'Etudes de Realisations d'Equipments Gaziers "SOFREGAZ" with registered office in Neuilly-sur-Seine, Plynostav Pardubice Holiding A.S. with registered office in Pardubice and Plynostav Regulace Plynu A.S. with registered office in Pardubice request determining that PZU is not obliged to pay PGNiG SA funds from performance bond insurance no. GKo/925/08-081 of 14 November 2008, amended with an annex of 9 March 2011, in the amount of PLN 66,699 thousand. PZU responded to this complaint on 5 March 2013.

Should the Court recognize the related claim, it will decide that PZU is not obliged to pay PGNiG SA funds from the above performance bond insurance of PLN 66,699 thousand. Should the case be dismissed, the cited basis for PZU to deny the payment to PGNiG SA will not apply.

PZU and PBG concluded a contract of mandate regarding periodic insurance guarantees (contractual guarantees). Based on these contracts PZU issued the above insurance guarantee. Should PZU perform on this guarantee PBG was obliged to refund the amount paid.

The amount arising from the above guarantee has been already submitted as a future liability under the claims submitted by PZU with regard to the bankruptcy estate of the two PBG Capital Group companies: PBG and Hydrobudowa. The issue has been described in point 54.5 of Notes.

54.7 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 25 October 2012 PZU motioned to the District Court for Kraków Śródmieście to call for settlement with Comarch SA. The settlement would involve paying to PZU an amount not lower than PLN 21,161 thousand for undue performance of the contract regarding the IT system to maintain financial insurance policies. Since no settlement was reached, the settlement call related proceedings were closed.

54.8 Receivables arising from a mortgage agreement with Metro-Projekt Sp. z o.o.

In 1999 PZU Życie granted a mortgage 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 perpetual usufruct right 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 case of 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 about 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 appealed against the judgment and on 29 July 2010 the appeal was dismissed. 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 it was appealed against on 12 September 2011 by the receiver in bankruptcy of Universal. On 23 February 2012 the Regional Court in Warsaw dismissed the petition of Universal's receiver demanding exclusion of the property located in Warsaw at Al. Jerozolimskie 44 from the bankruptcy assets of Metro-Projekt. The case was closed with a final court decision.

On 9 May 2012 the receiver of Metro-Projekt filed a petition to the Judge Commissioner for a permission to conclude an amicable settlement with the receiver of Universal concerning disputed claims concerning the two bankruptcy assets. Following the settlement, the bankruptcy assets of Metro-Projekt were to be charged with an additional amount of PLN 5,722 thousand for the benefit of bankruptcy assets of Universal, and in return, the receiver of bankruptcy assets of Universal was to waive all claims. Judge Commissioner consented to the settlement in line with the decision of 31 May 2012. The decision is final and valid.

The receiver of Universal made an irreversible statement in the form of a notarized deed waiving all claims against Metro-Projekt. Consequently, the receiver of Metro-Projekt made a payment for the benefit of bankruptcy assets of Universal on 5 July 2012.

On 10 January 2013, the Receiver of Metro-Projekt announced the sale of enterprise of the bankrupt company without the proper auction procedure, provided it will have the form of a tender. The starting price of the enterprise is PLN 110 million. On 1 March 2013, in the District Court for the capital city of Warsaw, the Receiver planned to open submitted tenders. Due to lack of tenders the procedure was cancelled.

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.

(in PLN '000)

54.9 Spór z Przedsiębiorstwem Wielobranżowym Pieprzyk Sp. z o.o.

On 6 February 2013, PZU received a call for settlement from the District Court for Warszawa-Śródmieście, upon a motion of Przedsiębiorstwo Wielobranżowe Pieprzyk Sp. z o.o. with registered office in Rawicz. The call included amounts of PLN 10,700 thousand, EUR 1,440 thousand and SDR 3,750 thousand.

The claim regards PZU refusal to pay claims for an Eurocopter make helicopter covered with a comprehensive aviation policy and destroyed in an accident on 11 January 2010. The hearing will take place on 26 April 2013.

55. Related party transactions

55.1 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 2012 and 2011 the consolidated 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.

55.1.1. Parent

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 2012**		**1 January - 31 December 2011**	
		including bonuses:		including bonuses:
Management Board, including:	**7 012**	**1 600**	**5 367**	**544**
Andrzej Klesyk	1 691	480	1 512	312
Przemysław Dąbrowski	1 092	252	840	-
Witold Jaworski	1 176	336	1 072	232
Bogusław Skuza	1 008	168	415	-
Tomasz Tarkowski	1 100	259	578	-
Ryszard Trepczyński	945	105	420	-
Marcin Halbersztadt	-	-	530	-
High level management (PZU Group Directors) including:	**2 283**	**337**	**3 151**	**192**
Dariusz Krzewina	616	86	570	-
Przemysław Dąbrowski	-	-	200*	200*
Rafał Grodzicki	709	179	510	-
Przemysław Henschke	435	-	-	-
Sławomir Niemierka	523	72	-	-
Tomasz Tarkowski	-	-	141	2
Mariusz J. Sarnowski	-	-	920	130
Krzysztof Dominik Branny	-	-	810	60
Supervisory Board including:	**1 126**	**-**	**984**	**-**
Waldemar Maj	162	-	120	-
Zbigniew Ćwiąkalski	168	-	168	-
Tomasz Zganiacz	85	-	-	-
Dariusz Daniluk	120	-	60	-

(in PLN '000)

Remuneration and other short-term employee benefits paid by PZU	**1 January - 31 December 2012**		**1 January - 31 December 2011**	
Zbigniew Derdziuk	120	-	60	-
Dariusz Filar	120	-	120	-
Włodzimierz Kiciński	71	-	-	-
Alojzy Nowak	71	-	-	-
Maciej Piotrowski	71	-	-	-
Marzena Piszczek	79	-	192	-
Krzysztof Dresler	59	-	132	-
Piotr Kamiński	-	-	60	-
Grażyna Piotrowska-Oliwa	-	-	72	-

Remuneration and other short-term employee benefits paid by other PZU Group entities	**1 January - 31 December 2012**		**1 January - 31 December 2011**	
		including bonuses:		including bonuses:
Management Board, including:	**2 106**	**255**	**1 868**	**141**
Andrzej Klesyk	386	-	389	-
Przemysław Dąbrowski	425	101	489	41
Witold Jaworski	392	-	451	-
Bogusław Skuza	237	-	-	-
Tomasz Tarkowski	257	77	245	100**
Ryszard Trepczyński	409	77	178	-
Marcin Halbersztadt	-	-	116	-
High level management (PZU Group Directors) including:	**2 486**	**569**	**2 127**	**123**
Dariusz Krzewina	992	278	877	41
Rafał Grodzicki	704	252	596	41
Przemysław Henschke	381	-	-	-
Sławomir Niemierka	409	39	-	-
Tomasz Tarkowski	-	-	-	-
Mariusz J. Sarnowski	-	-	346	41
Krzysztof Dominik Branny	-	-	308	-

(in PLN '000)

Total estimated amount of non-monetary performances granted by PZU and its subsidiaries	1 January – 31 December 2012	1 January – 31 December 2011
Management Board, including:	**1150**	**1 029**
Andrzej Klesyk	214	247
Przemysław Dąbrowski	148	198
Witold Jaworski	181	216
Bogusław Skuza	90	75
Tomasz Tarkowski	273	149***
Ryszard Trepczyński	244	39
Marcin Halbersztadt	-	105
High level management (PZU Group Directors) including:	**617**	**455**
Dariusz Krzewina	201	172
Rafał Grodzicki	192	160
Przemysław Henschke	72	-
Sławomir Niemierka	152	-
Mariusz J. Sarnowski	-	21
Krzysztof Dominik Branny	-	102
Supervisory Board including:	**1**	**-**
Alojzy Nowak	1	-

* The sums paid to Przemysław Dąbrowski for 2011 are presented in the section regarding high level management, because he received a bonus for 2010 as Director of the Capital Group.

** The sum is a bonus for 2010 for acting as Member of the Management Board in PZU Ukraine.

*** The indicated amount includes the equivalent of EUR 18,600 translated into PLN at the average currency rate of 31 December 2011 as published by the National Bank of Poland (NBP).

55.1.2. Other consolidated companies in the PZU Group

Remuneration paid to members of the Management Boards and Supervisory Boards of other consolidated companies in the PZU Group:

Item	1 January – 31 December 2012	1 January – 31 December 2011
Members of the Management Board	7 407	7 914
Members of the Supervisory Board	989	2 580

55.2 Other releated 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-subsidiaries 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. Carrying out its statutory activities, the PZU Group entities entered into transactions with entities controlled by the State Treasury other than commercial companies and state entities, whose business names are published on the website of the Ministry of Treasury. Considering a substantial number of such entities and transactions concluded, limitations of the reporting system implemented by the PZU Group as well as immateriality of the impact of such transactions on the performance of the PZU Group, PZU believes that their disclosure is not important for ensuring a reliable presentation of the financial position of the Group;

(in PLN '000)

- "other related parties" denote entities directly or indirectly controlled by PZU and associated companies, whose complete list is included in 2.2.

In 2011 the PZU Group applied the exemption from the obligation to disclose certain related party transactions due to control, joint control or significant influence of the same government, referred to in point 25 of IAS 24, described in point 3.3.

Property and personal insurance contracts, life insurance contracts and investment contracts constituted an overwhelming majority of transactions with entities controlled by, co-subsidiaries of and entities associated with the State Treasury.

The table below shows the written premiums and investment contract volumes resulting from transactions with entities controlled by, co-subsidiaries 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-subsidiaries of and entities associated with the State Treasury	1 January – 31 December 2012	1 January – 31 December 2011
Gross written premium at property and personal insurance	110 970	118 824
Gross written premium at life insurance	16 692	13 096
PZU Życie investment contract volumes	584 564	1 484 415
Total	**712 226**	**1 616 335**

Balances and turnovers of transactions between the PZU Group and related parties	1 January – 31 December 2012 and as at 31 December 2012		1 January – 31 December 2011 and as at 31 December 2011	
	Key members of the management of consolidated entities [1]	Other related entities [2]	Key members of the management of consolidated entities [1]	Other related entities [2]
Gross written premiums				
In property and personal insurance	-	278	-	387
in life insurance (including investment contracts)	-	-	-	-
Other revenue	-	58 157	-	35 840
Expenses	-	33 379	-	17 192
Including write-offs for receivables rezognized in current period	-	-	-	-
Receivables				
gross value	-	11 068	-	11 398
Write-offs	-	(8 306)	-	(9 806)
net value	-	2 762	-	1 592
Liabilities	-	2 528	-	1 868
Contingent assets	-	-	-	-
Contingent liabilities	-	-	-	-

1) High level management, data as per statements.
2) Direct or indirect subsidiaries and associates of PZU, not included in consolidation, whose complete list is presented in the point 2.2.

As at 31 December 2012 and 31 December 2011, 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 2011: 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.

(in PLN '000)

55.3 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 andassociated with the State Treasury.

Written premium and columes of investment contracts	1 January - 31 December 2012	1 January - 31 December 2011
Bank Powszechna Kasa Oszczędności BP SA	**618 349**	**1 507 809**
PZU Gross written premium	17 093	10 298
PZU Życie Gross written premium	16 692	13 096
Volumes from investment contracts of PZU Życie	584 564	1 484 415
Bank Ochrony Środowiska SA	**39**	**753**
PZU Gross written premium	39	753
Bank Gospodarstwa Krajowego SA	**72**	**195**
PZU Gross written premium	72	195

55.4 Transactions with largest counterparties whose shares are held by the State Treasury

Gross premium writtem* from 10 largest counterparties of PZU Group, whose shares are held by the State Treasury			
Counterparty	**1 January - 31 December 2012**	**Counterparty**	**1 January - 31 December 2011**
Counterparty 1	618 349	Counterparty 1	1 507 809
Counterparty 2	30 209	Counterparty 2	32 309
Counterparty 3	24 155	Counterparty 3	21 481
Counterparty 4	6 900	Counterparty 4	8 273
Counterparty 5	5 530	Counterparty 5	6 805
Counterparty 6	4 846	Counterparty 6	6 115
Counterparty 7	2 967	Counterparty 7	4 423
Counterparty 8	2 266	Counterparty 8	3 683
Counterparty 9	1 863	Counterparty 9	2 645
Counterparty 10	1 860	Counterparty 10	2 616

* The item includes gross written premium in property and personal insurance, life insurance and volumes from investment contracts.

56. Employment

The table below presents the average number of employees in the consolidated PZU Group companies.

Item	1 January - 31 December 2012	1 January - 31 December 2011
Management Boards (number of members at the end of the reporting period)	31	29
Management	940	931
Advisors	3	2
Other employees	13 175	14 057
Total	**14 149**	**15 019**

57. Other information

57.1 Composition of the Parent's Management Board

Composition of the Management Board as at 31 December 2011:

- Andrzej Klesyk – Chairman of the Board;
- Witold Jaworski – Member of the Board;
- Przemysław Dąbrowski - Member of the Board;

- Tomasz Tarkowski - Member of the Board;
- Bogusław Skuza - Member of the Board;
- Ryszard Trepczyński - Member of the Board.

On 27 September 2012, Witold Jaworski resigned from the position of a Member of the Management Board of PZU SA, and his mandate expired on that date.

By the date signing these financial statements, no other changes in the composition of PZU Management Board occurred.

57.2 Composition of the Parent's Supervisory Board

Composition of the Supervisory Board as at 31 December 2011 was as follows:

- Marzena Piszczek - Chairman;
- Zbigniew Ćwiąkalski - Vice-Chairman;
- Krzysztof Dresler - Secretary of the Board;
- Waldemar Maj - Member;
- Dariusz Filar - Member;
- Zbigniew Derdziuk – Member;
- Dariusz Daniluk – Member.

On 30 May 2012 Krzysztof Dresler resigned from the position of a Member of PZU Supervisory Board.

On 30 May 2012, General Shareholders Meeting of PZU passed a resolution regarding the number of Supervisory Board Members stating that the Supervisory Board consisted of nine people. The Shareholders Meeting dismissed Marzena Piszczek from the Supervisory Board, and at the same time appointed the following people as its members: Tomasz Zganiacz, Maciej Piotrowski, Włodzimierz Kiciński and Alojzy Nowak.

On 28 June 2012 the Supervisory Board of PZU SA was constituted. Waldemar Maj took the position of the Chairman, while Tomasz Zganiacz was appointed the Secretary.

From 28 June 2012 until the date of signing these separate financial statements, the composition of PZU Supervisory Board was as follows:

- Waldemar Maj - Chairman;
- Zbigniew Ćwiąkalski - 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.

57.3 Directors of the Group

Directors at the PZU Group as at 31 December 2011:

- Dariusz Krzewina;
- Rafał Grodzicki.

On 7 February 2012, the Management Board appointed Przemysław Henschke Director of the PZU Group effective from 1 February 2012.

On 16 March 2012 the Management Board appointed Sławomir Niemierka Director of the PZU Group effective from 19 March 2012.

(in PLN '000)

On 5 February 2013, the Management Board appointed Barbara Smalska Director of the PZU Group.

In the period from 5 February 2013 until the date of signing these separate financial statements, the following individuals were Directors in PZU Group:

- Dariusz Krzewina;
- Rafał Grodzicki;
- Przemysław Henschke;
- Sławomir Niemierka;
- Barbara Smalska.

All the present Directors at the PZU Group are also members of PZU Życie Management Board.

57.4 Coverage of losses incurred by PZU Lietuva

On 11 April 2012, the Management Board of PZU passed a resolution regarding coverage of certain previous year losses incurred by PZU Lietuva with a non-refundable contribution of LTL 7,000 thousand in order for PZU Lietuva to meet the regulatory requirement regarding the minimum equity level (according to Lithuanian law, equity cannot be lower than half of share capital).

At the end of 2011, the requirement was not met since PZU Lietuva incurred a net loss for 2011 of LTL 6,854 thousand.

On 27 April 2012, General Shareholders Meeting of PZU Lietuva passed a resolution regarding the contribution of LTL 7,000 thousand. Following the contribution payment by PZU on 10 May 2012, PZU Lietuva has fulfilled the above regulatory requirements.

57.5 Auditors' remuneration

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 2012	1 January - 31 December 2011
Audit of financial statements	633	609
Other assurance services	519	486
Tax advisory services	377	115
Other services	34	32
Total	**1 563**	**1 242**

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.

57.6 Termination of Corporate Collective Labour Agreements

On 28 February 2012, Management Boards of PZU and PZU Życie terminated Collective Labor Agreements (CLA) concluded in these companies in 2003 and 2006, respectcively, mainly because they needed a new remuneration system, better adjusted to market conditions and providing better incentives. The proposed principles included:

- New bonus rules to be introduced in Q4 2012: the monthly bonus up to 25% of the base pay to be replaced with a quarterly bonus up to 30% of the base pay (directly linked to performance);
- Maintaining other employee benefits (retirement benefit and jubilee bonus) only to the extent determined in the Labor Code - the issue has been discussed in detail in point 29 of the Notes.

Negotiations with labor unions regarding remuneration lasted from 28 February to 26 April 2012 and ended with a negative opinion regarding the proposed system presented by the unions. PZU and PZU Życie announced their intention to perform group layoffs related to potential cases of employment termination if acceptance of the new remuneration terms were refused by employees. The related negotiations with the labor unions took until 27 April 3012 and ended with no agreement. Therefore, on 7 May 2012, the Management Boards of PZU and PZU Życie determined the group layoff terms and conditions, as well as terms of remuneration to be proposed to employees until a new remuneration system is developed in cooperation with the labor unions.

The process of modifying all employment contracts in PZU and PZU Życie commenced on 9 May 2012 and ended on 6 July 2012.

The effects of change in the remuneration system did not materially impact costs of payroll and other employee benefits in 2012, except from release of provisions for employee benefits (retirement and jubilee benefits) whose outcome of PLN 177,027 thousand was charged to other operating revenue.

57.7 Employment restructuring in PZU

Restructuring program for 2010-2012

On 29 December 2009 the Management Board of PZU and PZU Życie announced an implementation plan of the restructuring program for 2010-2012.

In Q1 and Q2 2012, employment termination in PZU and PZU Życie resulted from termination agreements submitted in 2011, or termination statements, or following employee's refusal to accept the new terms of employment or remuneration regardless of the employer's intention.

On 10 July 2012, the Management Boards of PZU and PZU Życie decided to continue the employment restructuring process and requested the respective labor unions to commence work on agreements regarding collective layoffs, in accordance to the Act on special principles of employment termination for reasons not related to employees (Dz.U. No. 90 of 2003, item 844 as amended) and provided the competent County Labor Office with information about the commencement of the collective layoff procedure.

On 24 July 2012, PZU and PZU Życie and the respective labor unions concluded an agreement regarding terms of employment restructuring. The final version of the document was based on experience gained and solutions developed during similar negotiations in previous years.

The plan assumed that the above stage of employment restructuring in PZU and PZU Życie would take place from 13 August to 11 October 2012 and include up to 955 individuals in PZU (the planned restructuring was to include up to 376 employees and change in terms of employment in the form of an agreement or amending notice for 579 people).

The above stage of employment restructuring resulted from a number of projects that involved simplified procedures, automation and optimization of workflow and centralization of operations. The restructuring focused mostly on operations, finance and claims adjustment.

Finally, the above stage of restructuring in both companies included 746 people (192 had their employment terms modified, 554 were laid off, out of which 401 terminated their contracts refusing to accept new employment terms).

In all restructuring stages (i.e. in 2010-2012), individuals who were laid off or refused to accept the proposed change of employment terms were offered more favourable terms of leaving the company than projected by relevant legal regulations (Act on special principles of employment termination for reasons not related to employees). The amount of additional redundancy pay depended on the salary of each employee and their time of employment at the PZU Group. The total 2012 restructuring costs charged to the provision amounted to PLN 75,862 thousand (2011: PLN 58,169 thousand).

As at 31 December 2012, the restructuring provision totaled PLN 9,841 thousand (as at 31 December 2011: PLN 112,956 thousand) which meant a decrease in the provision by PLN103,115 thousand (an increase by PLN 37,703 thousand in 2011).

Restructuring program for 2013

On 27 December 2012, the Management Boards of PZU and PZU Życie published assumptions of the restructuring plan for 2013 to include mainly claim adjustment and finance areas, as well as auxiliary functions, but to much lower extent. On 13 February 2013, the Management Board of PZU and PZU Życie announced their intention to carry out group redundancies. Employment restructuring is planned in the period 18 March to 15 June 2013. The restructuring is to cover up to 3,145 people in PZU, including an estimated reduction of employment up to 630 PZU employees of PZU nad PZU Życie, what constitutes 5,5% of whole employment in both companies.

Thus PZU and PZU Życie created restructuring provision in amount of 48,353 as at 31 December 2012.

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)
Bogusław Skuza	Member of the Board	.... (signature)
Tomasz Tarkowski	Member of the Board	.... (signature)
Ryszard Trepczyński	Member of the Board	.... (signature)

Person responsible for preparation of separate financial statements:

Piotr Marczyk	Director	.... (signature)

Warsaw, 12 March 2013

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

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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 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 Nierucho-mości	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Sektora Nierucho-mości 2	nd.	Deloitte Polska Sp. z o.o. sp.k. – unqualified opinion	31 December 2013	11 March 2014
PZU FIZ Sektora Nierucho-mości 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 subjet 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.

Selected items from the statement of financial position (in PLN ‘000)	31.12.2013	31.12.2012
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

Selected items from the consolidated income statement (in PLN ‘000)	01.01.2013- 31.12.2013	01.01.2012 - 31.12.2012
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

Main items from the consolidated statement of other comprehensive income (in PLN ‘000)	01.01.2013- 31.12.2013	01.01.2012 - 31.12.2012
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

Profitability ratios	2013	2012
– 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%
Claims ratios		
– 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%
Total operating costs ratio		
– administrative expenses ratio (administrative expenses/gross written premium)	8.5%	8.9%
– acquisition costs ratio (acquisition costs/gross written premium)	12.2%	12.3%
Return on investment and equity ratios:		
– 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%
Solvency and funds security ratios		
– 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.

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(in PLN '000)

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

(in PLN '000)

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

(in PLN '000)

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

(in PLN '000)

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

(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)	Appropriations 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

(in PLN '000)

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

(in PLN '000)

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

(in PLN '000)

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.

Warsaw, 11 March 2014

The attached notes constitute an integral part of the consolidated financial statements

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).

(in PLN '000)

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.

(in PLN '000)

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 Nierucho-mości 3)	Warsaw	01.07.2008	n/a	n/a	n/a	n/a	As above.
29	PZU FIZ Sektora Nierucho-mości 2 3)	Warsaw	21.11.2011	n/a	n/a	n/a	n/a	As above.

(in PLN '000)

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 3013, 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.

(in PLN '000)

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.

(in PLN '000)

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 e 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).

(in PLN '000)

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.

(in PLN '000)

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.

(in PLN '000)

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	1375/203	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).

(in PLN '000)

- 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.

(in PLN '000)

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 of paragraph 52 if 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.

(in PLN '000)

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).

(in PLN '000)

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".

(in PLN '000)

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

(in PLN '000)

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.

Incidence 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.

(in PLN '000)

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.

(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	
Reinsurer's share in written premium	(160 273)	(43 756)	(2 848)	(58)	-	-	(31 253)	(20 795)	-	-	-	-	-	-	1 946	(257 037)	Reinsurer's 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**
											340 282	-	34 271	-	(54 591)	319 962	Revenue from commissions and fees
Investment income, including:	140 039	556 759	735 242	304 969	4 858 981	11 580	24 373	6 511	89 115	65 018	(6 792 587)						
Net investment income (external transactions)	140 039	556 759	735 242	304 969	896 559	11 580	24 373	6 511	89 115	65 018	(2 830 165)						
Net investment income (cross-segment transactions)	-	-	-	-	3 962 422	-	-	-	-	-	(3 962 422)						
											1 835 955	-	-	-	8 977	1 844 932	*Net investment income (external transactions)*
											3 962 422	-	-	-	(3 962 422)	-	*Net investment income (cross-segment transactions)*
											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	11 522	34 872	1 524	18 765	-	-	-	-	15 463	-	(82 146)						
Revenue from non-insurance entities	-	-	-	-	-	218 300	-	-	-	400 948	(619 248)						
Other operating revenue (without insurance entities)	-	-	-	-	-	3 090	-	-	-	6 002	634 404	(16 189)	(15 462)	-	(120 736)	491 109	Other operating revenue
Gross claims 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 provisions
Change in provision for claims outstanding (gross)	(1 959)	(761 742)	(9 526)	(17 034)	-	-	(5 417)	(359)	5 221	-	790 816						
Reinsurers' share in claims 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 provisions
Reinsurers' share in change in provisions for claims outstanding	(73 805)	(174 716)	-	-	-	-	5 199	(2 487)	-	-	245 809						
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)	-	-	(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						
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)**

(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**
											199 165	-	37 937	-	-	-	237 102	Revenue from commissions and fees
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)							
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 (cross-segment transactions)	-	-	-	-	1 235 518	-	-	-	-	-	(1 235 518)							
											2 040 830	-	-	-	-	6 224	2 047 054	*Net investment income (external transactions)*
											1 235 518	-	-	-	-	(1 235 518)	-	*Net investment income (cross-segment transactions)*
											385 556	104 163	-	-	-	31 549	521 268	Net profit or loss on realization and impairment loss on investments
											1 095 224	(64 008)	-	-	-	105 191	1 136 407	Net change in the fair value of assets and liabilities plus equity measured at fair value
Other technical revenue net of reinsurance	16 054	78 071	3 434	12 426	-	-	-	-	15 937	-	(125 922)							
Revenue from non-insurance entities	-	-	-	-	-	199 165	-	-	-	386 018	(585 183)							
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 paid	66 058	57 480	121	-	-	-	2 453	3 540	-	-	23 919	-	-	-	-	(1 004)	152 567	Reinsurers' share in claims, benefits and change in technical provisions
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)	-	-	-	(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.

(in PLN '000)

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%	

(in PLN '000)

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 (floor 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**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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%**

(in PLN '000)

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**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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**					
		PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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**					
	PLN 0-200 thousand	**PLN 200-500 thousand**	**PLN 500-1000 thousand**	**PLN 1000-2000 thousand**	**over PLN 2000 thousand**	**Total**
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%**

Gross written premium in non-life insurance – TPL as at 31 December 2012	Sum insured PLN 0-200 thousand	PLN 200-500 thousand	PLN 500-1000 thousand	PLN 1000-2000 thousand	over PLN 2000 thousand	Total
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 31 December 2013	Effect of changes in the assumptions on the net financial profit/loss 31 December 2012	Effect of changes in the assumptions on equity 31 December 2013	Effect of changes in the assumptions on equity 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 31 December 2013	Effect of changes in the assumptions on the net financial profit/loss 31 December 2012	Effect of changes in the assumptions on equity 31 December 2013	Effect of changes in the assumptions on equity 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 relativel 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).

(in PLN '000)

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 sole	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**

(in PLN '000)

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 rating** [1]
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.

(in PLN '000)

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 fiar 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 fiar 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.

(in PLN '000)

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**

(in PLN '000)

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 tears (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.

(in PLN '000)

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 scop	-	-	-	(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.

(in PLN '000)

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.

(in PLN '000)

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.

(in PLN '000)

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.

(in PLN '000)

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**

(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**

(in PLN '000)

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 20123	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**

(in PLN '000)

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 lised 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 lised 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 lised 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
Lised 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						
	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	**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						
	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	**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**

(in PLN '000)

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 amortizec cost	954 838	971 931	No data	-
Companies from WIG-Paliwa	At fair value	259 390	275 928	275 928	-
	At amortizec cost	700 000	701 234	No data	-
Domestic banks not listed	At amortizec cost	65 000	66 866	No data	-
Foreign banks	At fair value	102	142	142	-
	At amortizec cost	86 936	87 248	No data	-
Local authorities	At fair value	45 632	53 010	53 010	-
	At amortizec cost	50 000	52 509	54 398	-
Other	At amortizec 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**

(in PLN '000)

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 uture 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 ssets 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.

(in PLN '000)

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.

(in PLN '000)

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**

(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.

(in PLN '000)

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.

(in PLN '000)

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 Otwarty 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, the there was no higher-level parent company of PZU drawing up its consolidated financial statements.

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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.

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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.

(in PLN '000)

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.

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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 nad 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**

(in PLN '000)

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**

(in PLN '000)

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**

(in PLN '000)

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.

(in PLN '000)

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)] inclduing 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.

(in PLN '000)

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.

(in PLN '000)

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 recognized 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.

(in PLN '000)

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 GMS 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 appellation 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 form Metro-projekt. As at 31 December 2013 the total impairment loss amounted to PLN 26,275 thousand.

(in PLN '000)

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 Ćwiąkalski	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.

(in PLN '000)

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 releated 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-subsidiaries 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-subsidiaries 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-subsidiaries 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 rezognized 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 columes 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

(in PLN '000)

53.4 Transactions with largest counterparties whose shares are held by the State Treasury

Gross premium writtem [1] 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 Ćwiąkalski - 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 form 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.

(in PLN '000)

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

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