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**

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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**

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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

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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)

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(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**

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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**

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(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

(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 capital is created and distributed pursuant to the provisions of the Code of Commercial Companies (Dz. U. No. 94 of 2000, item 1037 with subsequent amendments) and articles of association 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.

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 intangib le 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	Classificat ion	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	Classificat ion	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 consolidation 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**	**reinsurers' 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